SSARS 21
Review, Compilation, and Preparation of
Financial Statements

Course Objectives

- Provide background information that resulted in SSARS 21
- Introduce new Preparation Standard
- Compare the Compilation and Preparation Engagement
- Introduce the new compilation and review report
- Detail discussion of changes to compilation and review engagements

Introduction

The Accounting and Review Services Committee of the AICPA issued SSARS 21 in October, 2014, and the standard becomes effective for periods ending after December 15, 2015. This course will include an in-depth discussion of the changes that SSARS 21 has on compilation and review engagements, as well as introducing the new standards related to the preparation of financial statements.

Key Point

| | While the effective date of SSARS 21 is effective for periods ending after December 15, 2015, early implementation is available for all requirements of the standard |
Clarity Format

SSARS 21 is written in the clarity format that was used by the Auditing Standards Board for the updating of all existing auditing standards. The new sections of the AICPA Professional Standards that are impacted by SSARS 21 shall be designated as an AR-C section as opposed to the previous codification that just had the AR reference.

The main body of each AR-C section will contain the following sections:

- Introduction
- Objective
- Definitions
- Requirements
- Application and Other Explanatory Material
- Appendix
- Exhibits

The application and other explanatory material paragraphs will be designated with a paragraph reference that begins with the letter “A”, and all of these paragraphs will be cross-referenced to the corresponding paragraph in the requirements section.

Reasons for the Adoption of SSARS 21

The Accounting and Review Services Committee of the AICPA determined that it was necessary to make significant changes to existing standards for two reasons:

- Professional judgment used in determining when “submission” occurred that would trigger the requirement to compile was considered confusing and caused inconsistency in practice, especially as it related to the determination of when an accountant prepared financial statements.

- Changes to AICPA Independence Interpretation 101-3 (the reference has since changed) related to the preparation of financial statements now being defined specifically as a non-attest engagement.

Major Changes as a result of SSARS 21

- Compilations will be engagement driven instead of submission driven.
- A new “Preparation” Standard will be issued (AR-C 70).
- The compilation engagement letter will have fewer required elements.
- The compilation report will have major changes.
• The review report will have major changes.

• There will be more guidance on supplementary and required supplementary information for both compilation and review engagements.

• The guidance outlining the responsibilities for communications related to fraud and illegal acts is eliminated

• The following AR sections are eliminated, with some of the guidance incorporated in AR-C 80 and AR-C 90:
  
  o AR 110 – Compilation of Specified Accounts, Items, or Elements
  o AR 200 – Comparative Financial Statements
  o AR 300 – Prescribed Formats
  o AR 400 – Communications Between the Predecessor and Successor Accountant
  o AR 600 – Exemption for Personal Financial Statements included a written Personal Financial Plan

• All existing SSARS Interpretations are eliminated and incorporated in the Application and Other Explanatory Guidance.

The following table depicts the structure of the AICPA Professional Standards for Accounting and Review Services prior to and after the issuance of SSARS 21

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AR-C 60 General Principles for Engagements Performed in Accordance with Statements on Standards for Accounting and Review Services

Overview

The guidance in AR-C 60 applies to all engagements conducted under SSARS, including preparation, compilation, and review engagements.

Definitions

This section revised extant AR 60 to incorporate relevant definitions that are necessary with the issuance of SSARS 21, and provides additional definitions that were not incorporated in AR 60.

Engagement partner – The partner or other person in the firm who is responsible for the engagement and its performance and for the report that is issued on behalf of the firm and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

Engagement team – All accountants and staff performing the engagement, and any individuals engaged by the firm who perform procedures on the engagement.

Firm – A form of organization permitted by law or regulation whose characteristics conform to resolutions of the Council of the AICPA and that is engaged in the practice of public accounting.

Professional judgment – The application of relevant training, knowledge, and experience, within the context provided by SSARSs and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review, compilation, or engagement to prepare financial statements.

Professional Responsibilities

The paragraphs listed in the “Requirements” section of each section contain the required elements that must be followed by the accountant. There are two categories of professional requirements as follows:

Unconditional requirements – These requirements are designated by the verb “must”. If any of these requirements are not followed, the engagement has not been performed in accordance with AICPA Standards.

Presumptively mandatory requirements – These requirements are designated by the verb “should”. These requirements shall be followed with exceptions allowed for very rare circumstances in which it is either impossible or impractical to apply the standard. When this occurs, the accountant should apply alternative procedures to achieve the objective, and document the deviation from standards and the alternative procedures performed.
Engagement Acceptance and Continuance

Extant AR 60 does not provide any specific guidance related to engagement acceptance and continuance. AR-C 60 now contains specific guidance related to engagement acceptance and continuance for all engagements under SSARS.

AR-C 60 states that an accountant shall not accept an engagement when any of the following exist:

- The accountant has reason to believe that relevant ethical requirements will not be satisfied
- The accountant’s preliminary understanding of the engagement circumstances indicates that information needed to perform the engagement is likely to be unavailable or unreliable
- The accountant has cause to doubt management’s integrity such that it is likely to affect the performance of the engagement.

As a condition for accepting an engagement, the accountant should:

- Determine whether preliminary knowledge of the engagement circumstances indicate that ethical requirements regarding professional competence will be satisfied.
- Determine whether the financial reporting framework selected by management to be applied in the preparation of the financial statements is acceptable
- Obtain an engagement letter

Key Point

Many of the engagement acceptance and continuance requirements may have already been put in place due to the firm’s quality control policies and procedures. Review your quality control procedures to ensure that you are complying, at a minimum, with the above requirements.
AR-C 70 Preparation of Financial Statements

Introduction

The preparation standard provides and accountant with a fourth option when issuing financial statements for a client. Prior to this standard, the accountant could audit, review, or compile financial statements. Like a compilation engagement, the preparation engagement is not an assurance engagement, but unlike a compilation, it is not an attest engagement.

Applicability

This standard will only apply when an accountant is engaged by the client to prepare financial statements. The standard requires that the accountant exercise professional judgment in determining whether he or she has been engaged to prepare financial statements. The Appendix of AR-C 70 contains paragraph A.18 that provides additional guidance as follows, which is not intended to be all-inclusive:

AR-C Section 70 Preparation of Financial Statements applies when:

- Preparation of financial statements prior to audit or review by another accountant
- 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
- Using the information in a general ledger to prepare financial statements outside of an accounting software system

AR-C Section 70 Preparation of Financial Statements does not apply when:

- Preparation of financial statements when the accountant is engaged to perform an audit, review, or compilation of such financial statements
- Preparation of financial statements with a tax return solely for submission to taxing authorities
- Personal financial statements that are prepared for inclusion in written personal financial plans prepared by the accountant
- Financial statements prepared in conjunction with litigation services that involve pending or potential legal or regulatory proceedings.
- Maintaining depreciation schedules
- Preparing or proposing certain adjustments, such as those applicable to deferred income taxes, depreciation, or leases
- Drafting financial statement notes
- Entering general ledger transactions or processing payments (general bookkeeping) in an accounting software system
Key Point

It is the opinion of the author that even though AR-C 70 states that the standard is engagement driven, the requirement to use professional judgment in determining if the accountant has been engaged to prepare the financial statements basically overrides the engagement driven criteria in paragraph 1, and effectively makes the standard preparation driven.

Preparation Requirements of AR-C 70

An accountant that is engaged to prepare financial statements will be required to perform the following procedures:

1. Obtain an engagement letter (AR-C 70.10)
   - Objectives of the engagement
   - Responsibilities of management
   - Responsibilities of the accountant
   - Limitations of the engagement
   - Identification of the applicable financial reporting framework
   - Must be signed by the accountant and the client

2. Obtain an understanding of the entity’s financial reporting framework and the significant accounting policies used by the client. (AR-C 70.12)

3. Discuss all significant estimates and judgments with management and ascertain that management: (AR-C 70.16)
   - Understands significant judgments and estimates
   - Accepts responsibility for significant judgments and estimates

4. Provide a statement on each page of the financial statements that states “No assurance is provided”. If this cannot be done the accountant must do either of the following: (AR-C 70.14)
   - Issue a disclaimer
   - Perform a compilation

5. If the financial statements are prepared in accordance with a special purpose framework, the accountant should include a description of the financial reporting framework on the face of the financial statements or in a note to the financial statement. (AR-C 70.15)
6. If the accountant become aware the information supplied by the client is incorrect, incomplete, or otherwise unsatisfactory, the accountant should request additional or revised information. (AR-C 70.17)

7. If the accountant prepares financial statements with known departures from the applicable financial reporting framework, (including inadequate disclosure), the accountant should disclose the material misstatement or misstatements in the notes. (AR-C 70.18)

**Documentation Requirements of AR-C 70**

An accountant engaged to prepare financial statements shall comply with the following documentation requirements: (AR-C 70.21)

1. Prepare documentation in connection with the engagement in sufficient detail to provide a clear understanding of work performed which, at a minimum, includes the following:
   - The engagement letter
   - A copy of the financial statements
   - The justification for departure of a presumptively mandatory requirement (rare)

In addition to the required documentation, an accountant will typically have the following items documented. While none of the items listed below are required by AR-C 70, your firm may require some of these items based on your internal quality control procedures:

   - Engagement Acceptance or Continuance Form
   - Procedures checklist
   - Supervision and review checklist
   - Information to support journal entries
   - Information to support top-side entries
   - Information to support disclosures
Impact on Peer Review

The Peer Review Committee of the AICPA issued an exposure draft on August 18, 2014 that would exempt engagements performed under AR-C 70 from peer review. In response to feedback, the committee re-issued the exposure draft on November 18, 2014. The new proposal would include preparation engagements in peer review if a firm is otherwise subject to a peer review. If a firm does not perform any other service that does not trigger the need for a peer review, then the firm would not be required to have a peer review for just the preparation engagements. This guidance mirrors the current standard as it relates to management use only financial statements.
AR-C 80 Compilation Engagements

Introduction

SSARS 21 makes substantive changes to the compilation standards that have been in place since the issuance of SSARS 19. This section of the course highlights those changes and how they will impact your practice.

Substantive Changes

Engagement Driven Compilations (AR-C 80.01)

Under existing standards, an accountant must at a minimum compile financial statements when he or she submits (prepares and presents) financial statements. SSARS 21 will only require an accountant to follow AR-C 80 when he or she is specifically engaged by the client to compile financial statements. This is a major philosophical change from the committee, and may have a significant impact on how CPAs practice, especially smaller firms that do not audit or review financial statements.

Changes to the Engagement Letter (AR-C 80.10)

The engagement letter will change as a result of SSARS 21. The following additional items shall be addressed in the engagement letter:

- The Applicable Financial Reporting Framework must be identified in the engagement letter
- The expected form of the report must be included in the engagement letter
- Management responsibilities have been expanded from five to six
  - Accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement.
- Client must sign the engagement letter
- There is no longer a requirement to disclose lack of independence in the engagement letter
**Compilation Report (AR-C 80.17)**

The existing three paragraph report will be reduced to one basic paragraph. Modification of the report for items such as lack of independence, omission of disclosures, and framework departures will still be applicable.

The following is an example of the new report:

Management is responsible for the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X4 and 20X3 and the related statements of income, changes in stockholder’s equity, 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.
Supplementary Information (AR-C 80.32)

An accountant must clearly indicate the degree of responsibility taken when supplementary information accompanies a compilation by:

1. Including an other-matter paragraph in the accountants compilation report
2. Issuing a separate report on the supplementary information

Required Supplementary Information (AR-C 80.35)

When required supplementary information is presented (or should have been presented) and other-matter paragraph should be included that would address all of the following situations:

- Required supplementary information is properly presented and the accountant compiled the RSI
- Required supplementary information is included, but the accountant did not compile the RSI
- Required supplementary information is omitted
- Some required supplementary information is presented and some is omitted
- Departures from required supplementary information are present.
- The accountant has unresolved doubts about whether or not the required supplementary information is properly presented.
Documentation in Compilation Engagements (AR-C 80.38)

The accountant should prepare documentation in sufficient detail to provide a clear understanding of the work performed, which at a minimum, includes the following:

1. Engagement letter
2. Copy of the financial statements
3. Copy of the compilation report

Elimination of the Management Use Only Compilation

An accountant compiling financial statements has had the option of compiling “Management Use Only” financial statements since the issuance of SSARS 8 in 1998. This option has been eliminated with the issuance of SSARS 21, therefore accountants must now choose between the compilation engagement or the preparation engagement in order to continue issuing financial statements to clients that are currently under the “Management Use Only” engagement.

Fraud and Illegal Acts

While management’s responsibility for the prevention and detection of fraud and illegal acts remains one of the responsibilities of management specifically listed in the engagement letter, all references to the accountant’s responsibility to communicate fraud or illegal acts that they may become aware of has been eliminated from the standards.
AR-C 90 Review of Financial Statements

Introduction

The clarified review standards do not contain the significant substantive changes that are included in compilation engagements. While the changes related to review engagements can be early implemented, most firms will wait until December 31, 2015 to incorporate changes due to the timing of the issuance of SSARS 21.

Substantive Changes to Review Engagements

Expansion of review engagements to presentations other than financial statements (AR-C 90.01)

An accountant may only review historical financial statements under current standards, but may issue a compilation report on historical financial statements, specified elements, accounts, or items, supplementary information, required supplementary information, and other historical information. AR-C 90 will now allow an accountant to perform review engagement on these types of presentations as well.

Changes to the Engagement Letter (AR-C 90.11)

The following items are substantial changes to the engagement letter from the existing requirements:

- The Applicable Financial Reporting Framework must be identified
- The expected form and content of the review report must be discussed
- The engagement letter must be signed by both parties

Analytical Procedures (AR-C 90.19)

While it was initially believed that SSARS 21 would have little or no impact on the performance of analytical procedures, the final draft did include some specific requirements related to the analytical procedures that were not in extant standards. While many of these procedures that have been added were probably already being performed on most reviews, the fact that these procedures are now required should be addressed.
The following analytical procedures which were just presented as examples in extant guidance are now presumptively mandatory under SSARS 21:

- Comparison with prior year period(s)
- Considering plausible relationships among financial and nonfinancial information
- Comparing disaggregated revenue data, as applicable

Other factors the accountant should consider in designing both analytical procedures and inquiries include:

- Reading the reports of financial statements for subsidiaries or investees

**Additional procedures now required in a review engagement**

SSARS 21 imposes additional procedures that were probably performed in most review engagements, but are now presumptively mandatory:

- The financial statements must be reconciled to the underlying accounting records (AU-C 90.26)
- The accountant must evaluate review evidence as follows:
  - Accumulate misstatement identified
    - Measurement
    - Disclosure
  - Evaluate misstatements to determine if adjustments are necessary
- Evaluate whether sufficient appropriate review evidence has been obtained from the procedures performed

**Documentation in a Review Engagement (AR-C 90.92)**

The following items are required to be retained as review documentation:

- The engagement letter
- Communications to management regarding fraud or noncompliance with laws and regulations
- Communications with management regarding the accountant’s expectation to include an emphasis-of-matter or other-matter paragraph in the review report
- Communications with other accountants that have audited or reviewed the financial statements of significant components
- The representation letter
- A copy of the financial statements
- A copy of the review report
Reporting on Financial Statements (AR-C 90.39)

Current standards do not require paragraph headings within the review report. AR-C 90 requires paragraph headings, similar to those used in audit report under the clarity standards.

The city and state of the issuing office shall also be indicated on the report. Pre-printed letterhead will suffice if the city and state are indicated.

The following is a sample of the basic review report for comparative statements that are prepared in accordance with United States GAAP.
Independent Accountant’s Review Report

[Appropriate Addressee]

I (we) have reviewed the accompanying financial statements of XYZ Company, which comprise the balance sheets as of December 31, 20X2 and 20X1, and the related statements of income, changes in stockholders’ equity, 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 report.

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.

[Signature of accounting firm or accountant, as appropriate]

[Accountant’s city and state]

[Date of the accountant’s review report]

AR-C 90 makes significant changes to an accountant’s review report when management uses a special purpose framework (formerly OCBOA) as its basis of accounting:

The accountant must determine the financial statements are suitably titled.

The summary of significant accounting policies should describe the framework and differences from GAAP.

The accountant must determine whether disclosures are adequate.

If the contractual basis is used, determine whether the financial statements adequately describe and significant interpretations of the contract.

Reference management’s responsibility for choosing the framework.

The accountant will now be required to add an emphasis-of-matter paragraph that refers to the note that describes the basis of accounting.

The accountant will now be required to add another-matter paragraph when the contractual basis or regulatory basis of accounting is used that restricts the use of the report to the intended parties.

Required Supplementary Information (AR-C 90.83)

An accountant must include an other-matter-paragraph when required supplementary information is presented. The proposed standard includes guidance for many difference scenarios related to required supplementary information such as:

Required supplementary information is properly presented.

Required supplementary information is not properly presented.

Required supplementary information has been compiled, but not reviewed.

Required supplementary information has not been compiled, reviewed, or audited.

Departures from required supplementary information are present.

The accountant has unresolved doubts about whether or not the required supplementary information is properly presented.
Summary

SSARS 21 will have a major impact on accounting practices that perform compilation and review engagements for period ending after December 15, 2015. Accountants should obtain a thorough understanding of SSARS 21 and determine the impact of the standard on their practice. Special attention should be given to updating both quality control standards and quality control documents used by the firm.
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Appendix 1

Sample Engagement Letter for a Preparation Engagement Under SSARS 21

[Appropriate Salutation]

To the appropriate representative of ABC Company:

You have requested that we prepare the financial statements of ABC Company, which comprise
the balance sheet as of December 31, 20XX, and the related statements of income, and changes
in stockholders’ equity, and cash flows for the year then ended and the related notes to the
financial statements. We are pleased to confirm our acceptance and our understanding of this
engagement to prepare the financial statements of ABC Company by means of this letter.

Our Responsibilities

The objective of our engagement is to prepare financial statements in accordance with
accounting principles generally accepted in the United States of America based on information
provided by you. We will conduct our engagement in accordance with Statements on Standards
for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review
Services Committee of the AICPA and comply with the AICPA’s Code of Professional Conduct,
including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to, and will not, verify the accuracy or completeness of the information you
will provide to us for the engagement or otherwise gather evidence for the purpose of expressing
an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion or
provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement
misstatements, including those caused by fraud or error, or to identify or disclose any
wrongdoing within the entity or noncompliance with laws and regulations.

Management Responsibilities

The engagement to be performed is conducted on the basis that management acknowledges and
understands that our role is the preparation of the financial statements in accordance with
accounting principles generally accepted in the United States of America. Management has the
following overall responsibilities that are fundamental to our undertaking, in accordance with
SSARSs, the engagement to prepare your financial statements:

a. The prevention and detection of fraud
b. To ensure that the entity complies with the laws and regulations applicable to its activities
c. The accuracy and completeness of the records, documents, explanations, and other
information, including significant judgments, you provide to us for the engagement to
prepare financial statements
d. To provide us with:
   (1) Documentation, and other related information that is relevant to the preparation and
       presentation of the financial statements,
   (2) Additional information that may be requested for the purpose of the preparation of the
       financial statements, and
(3) Unrestricted access to persons within ABC Company to whom we determine necessary to communicate.

The financial statements will not be accompanied by a report. However, you agree that the financial statements will clearly indicate that no assurance is provided on them.

Other relevant information

Our fees for these services . . . .

We will also perform the following services in connection with this engagement . . . .

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein, and our respective responsibilities

Sincerely yours,

_______________________

[Signature of accountant or accountant’s firm]

Acknowledged and agreed on behalf of ABC Company by:

_______________________

[Signed]

[Name and title]
Appendix 2

Sample Engagement letter for a Compilation under SSARS 21

To the appropriate representative of management of ABC Company:

You have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX and the related statements of income, changes in stockholders’ equity, and cash flows for the year then ended, and the related notes to the financial statements, and perform a compilation engagement with respect to those financial statements. We are pleased to confirm our acceptance and our understanding of this compilation engagement by means of this letter.

Our Responsibilities

The objective of our engagement is to

a. prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and

b. apply accounting and financial reporting expertise to assist you in the presentation of financial statements 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 accounting principles generally accepted in the United States of America.

We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA’s Code of Professional Conduct, including the ethical principles of integrity, objectivity, professional competence, and due care.

We are not required to and will not verify the accuracy or completeness of the information you will provide to us for the engagement or otherwise gather evidence for the purpose of expressing an opinion or a conclusion. Accordingly, we will not express an opinion or a conclusion, nor provide any assurance on the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by fraud or error, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations.

Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and to assist you in the presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:
a. The preparation and fair presentation of financial statements in accordance with accounting principles generally accepted in the United States of America

b. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements

c. The prevention and detection of fraud

d. To ensure that the entity complies with the laws and regulations applicable to its activities

e. To make all financial records and related information available to us

f. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

You are also responsible for all management decisions and functions, and for designating an individual with suitable skill, knowledge, and expertise to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for such services.

Our Report

As part of our engagement, we will issue a report that will state that we did not audit or review the financial statements and that, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on them.

Other relevant information

Our fees for these services . . . .

[The accountant may include language, such as the following, regarding limitation of or other arrangements regarding the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, and defend us from any liability or costs, including attorney’s fees, resulting from management’s knowing misrepresentations to us.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a compilation engagement with respect to those same financial statements, and our respective responsibilities.

Sincerely yours,

_______________________

[Signature of accountant or accountant’s firm]
Acknowledged and agreed on behalf of ABC Company by:

_______________________

[Signed]

[Name and title]
Appendix 3
Sample Engagement Letter for Review Engagement under SSARS 21

To the appropriate representative of management of ABC Company:

You have requested that we prepare the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, and the related statements of income, changes in stockholders’ equity, and cash flows for the year then ended, and the related notes to the financial statements and perform a review engagement with respect to those financial statements. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter.

Our Responsibilities

The objective of our engagement is to

a. Prepare financial statements in accordance with accounting principles generally accepted in the United States of America based on information provided by you and

b. Obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America.

We will conduct our engagement in accordance with Statements on Standards for Accounting and Review Services (SSARSs) promulgated by the Accounting and Review Services Committee of the AICPA and comply with the AICPA’s Code of Professional Conduct, including ethical principles of integrity, objectivity, professional competence, and due care.

A review engagement includes primarily applying analytical procedures to your financial data and making inquiries of company management. A review engagement is substantially less in scope than an audit engagement, the objective of which is the expression of an opinion regarding the financial statements as a whole. A review engagement does not contemplate obtaining an understanding of the entity's internal control; assessing fraud risk; testing accounting records by obtaining sufficient appropriate audit evidence through inspection, observation, confirmation, or the examination of source documents; or other procedures ordinarily performed in an audit engagement. Accordingly, we will not express an opinion regarding the financial statements.

Our engagement cannot be relied upon to identify or disclose any financial statement misstatements, including those caused by error or fraud, or to identify or disclose any wrongdoing within the entity or noncompliance with laws and regulations. However, we will inform the appropriate level of management of any material errors and of any evidence or information that comes to our attention during the performance of our review procedures that fraud may have occurred. In addition, we will report to you any evidence or information that comes to our attention during the performance of our review procedures regarding noncompliance with laws and regulations that may have occurred, unless they are clearly inconsequential.
Your Responsibilities

The engagement to be performed is conducted on the basis that you acknowledge and understand that our role is the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements in order for the statements to be in accordance with accounting principles generally accepted in the United States of America. You have the following overall responsibilities that are fundamental to our undertaking the engagement in accordance with SSARSs:

a. The selection of accounting principles generally accepted in the United States of America as the financial reporting framework to be applied in the preparation of the financial statements

b. The preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and the inclusion of all informative disclosures that are appropriate for accounting principles generally accepted in the United States of America;

c. The design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements

d. The prevention and detection of fraud

e. To ensure that the entity complies with the laws and regulations applicable to its activities

f. To make all financial records and related information available to us

g. The accuracy and completeness of the records, documents, explanations, and other information, including significant judgments, you provide to us for the engagement

h. To provide us with unrestricted access to persons within the entity of whom we determine it necessary to make inquiries;

i. To provide us, at the conclusion of the engagement, with a letter that confirms certain representations made during the review.

You are also responsible for all management decisions and functions, and for designating an individual with suitable skill, knowledge, and expertise to oversee our preparation of your financial statements. You are responsible for evaluating the adequacy and results of services performed and accepting responsibility for such services.

Our Report

We will issue a written report upon completion of our review of ABC Company’s financial statements. Our report will be addressed to the board of directors of ABC Company. We cannot provide assurance that an unmodified accountant’s review report will be issued. Circumstances may arise in which it is necessary of us to report known departures from accounting principles generally accepted in the United States of America, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement. If, for any reason, we are unable to complete the review of your financial statements, we will not issue a report on such statements as a result of this engagement.
Other relevant information

Our fees for these services. . .

[The accountant may include language such as the following regarding limitation of or other arrangements regarding the liability of the accountant or the entity, such as indemnification to the accountant for liability arising from knowing misrepresentations to the accountant by management (regulators may restrict or prohibit such liability limitation arrangements):

You agree to hold us harmless and to release, indemnify, defend, us from any liability or costs, including attorney’s fees, resulting from management’s knowing misrepresentations to us.]

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our engagement to prepare the financial statements described herein and to perform a review of those same financial statements, and our respective responsibilities.

Sincerely yours,

_______________________
[Signature of accountant or accountant’s firm]

Acknowledged and agreed on behalf of ABC Company by:

_______________________
[Signed]
[Name and title]

_______________________
[Date]
Appendix 4
Sample Balance Sheet (GAAP)-Preparation Engagement

ABC Company
Balance Sheet - Substantially All Disclosures Omitted
December 31, 2015

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$43,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>89,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>76,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>11,000</td>
</tr>
<tr>
<td>Total current assets</td>
<td>219,000</td>
</tr>
<tr>
<td>Property, Plant, and Equipment, net</td>
<td>654,000</td>
</tr>
<tr>
<td>Cash surrender value of life insurance</td>
<td>13,000</td>
</tr>
<tr>
<td>Deposits</td>
<td>3,000</td>
</tr>
<tr>
<td>Total assets</td>
<td>$889,000</td>
</tr>
</tbody>
</table>

Liabilities and Member's Equity

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$118,000</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>11,000</td>
</tr>
<tr>
<td>Payroll liabilities</td>
<td>3,600</td>
</tr>
<tr>
<td>Current portion long term debt</td>
<td>46,000</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>178,600</td>
</tr>
<tr>
<td>Long term debt, net of current portion</td>
<td>532,000</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>710,600</td>
</tr>
<tr>
<td>Member's equity</td>
<td>178,400</td>
</tr>
<tr>
<td>Total liabilities and member's equity</td>
<td>$889,000</td>
</tr>
</tbody>
</table>

No assurance is provided on these financial statements
Appendix 5

Sample Income Statement (GAAP Basis) – Preparation Engagement

ABC Company
Income Statement - Substantially All Disclosures Omitted
For the year ended December 31, 2015

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$2,134,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>1,583,000</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>551,000</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>346,000</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>102,000</td>
</tr>
<tr>
<td>Operating income</td>
<td>103,000</td>
</tr>
<tr>
<td>Other income/expense</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(28,000)</td>
</tr>
<tr>
<td>Loss on sale of fixed assets</td>
<td>(11,000)</td>
</tr>
<tr>
<td>Other income</td>
<td>8,000</td>
</tr>
<tr>
<td>Total other income/expense</td>
<td>(31,000)</td>
</tr>
<tr>
<td>Net income</td>
<td>$72,000</td>
</tr>
</tbody>
</table>

No assurance is provided on these financial statements
Appendix 6
Sample Balance Sheet (Income Tax Basis) – Preparation Engagement

ABC Company
Balance Sheet - Income Tax Basis
Substantially All Disclosures Omitted
December 31, 2015

**Assets**

<table>
<thead>
<tr>
<th>Current assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 43,000</td>
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<td>Inventory</td>
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<tr>
<td>Prepaid expenses</td>
<td>11,000</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
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</tr>
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</tr>
</tbody>
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**Liabilities and Member’s Equity**

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</tr>
<tr>
<td><strong>Total liabilities and member’s equity</strong></td>
<td><strong>889,000</strong></td>
</tr>
</tbody>
</table>

No assurance is provided on these financial statements
Appendix 7

Sample Income Statement (Income Tax Basis) – Preparation Standard

ABC Company
Income Statement - Income Tax Basis
Substantially All Disclosures Omitted
For the year ended December 31, 2015

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
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</tr>
<tr>
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</tr>
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<td>Net income</td>
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</tr>
</tbody>
</table>

No assurance is provided on these financial statements