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2019

TODAY'S CPA

Texas Society of Certified Public Accountants

COMMON QUESTIONS ASKED DURING ESTATE ADMINISTRATION

SUSTAINABILITY IN THE OIL AND GAS INDUSTRY

APPLICATION OF CECL TO REVENUE CONTRACTS

ROBOTIC PROCESS AUTOMATION

2019 RISING STARS

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Texas Society of Certified Public Accountants

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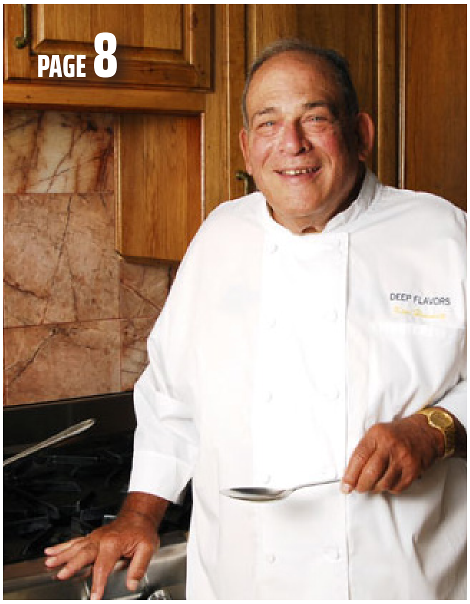

COLUMNS

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CONGRATULATIONS TO OUR NEWEST RISING STARS!

By TXCPA Chairman Lei D. Testa, CPA-Fort Worth, CGMA

Share Your Thoughts
I'd love to hear your feedback and answer your questions.
Drop me a note at chairman@tscpa.net.

Welcome to one of our most popular issues of *Today's CPA!* What makes this issue different? Members love seeing the latest group of TXCPA Rising Stars and reading about the future leaders of our profession! It's awesome to see our community congratulating and welcoming these young CPAs into leadership roles across the state.

It's easy to see why the 20 Rising Stars selected in 2019 have risen to the top. I know the CPA profession and TXCPA are in great hands with the Rising Stars and their peers leading us into the future. I've been fortunate to meet and volunteer side-by-side with some of these fantastic go-getters already. You can read their profiles beginning on page 14.

We've recently opened the nominations process for our 2020 Rising Stars, so be thinking about who you may know in your firm, company or community who is deserving of this recognition. Then head to www.tscpa.org to find details on submitting a nomination. The deadline is Dec. 16, 2019, and the online nominations process makes it easy to make your recommendation for next year's honorees.

One of the best benefits of belonging to our community is the opportunity to support, honor and recognize those who are making a difference. Thank you for helping us identify shining examples of the future of our profession!

FORENSIC SERVICES JOINS OTHER SPECIALIZED SKILLS AS AICPA ISSUES NEW STATEMENT ON PROFESSIONAL STANDARDS

By Don Carpenter, MSAcc/CPA

In the minds of many, the role of an accounting professional is limited to the preparation of tax returns or financial statements. But the profession has a long history of providing a broad array of services to individual clients and the business community at large. The variety of services is evident in the AICPA statements of professional conduct that govern member interaction with clients on engagements that extend far beyond the traditional roles accountants are thought to fill. The first of these was the Statement on Standards for Consulting Services No. 1 issued in 1991. The Statement on Standards for Valuation Services No. 1 followed in 2007.

Most recently, forensic services joined the list of specializations meriting a standard of professional conduct when AICPA's Forensic and Valuation Services Executive Committee issued Statement on Standards for Forensic Services No. 1 this past July. The standard is effective for engagements on or after Jan. 1, 2020.

The standard defines forensic accounting services as the "application of specialized knowledge and investigative skills by a member to collect, analyze and evaluate certain evidential matter and to interpret and communicate findings." It further subdivides forensic services by the type of engagement, which is critical to understanding the professional rules of conduct.

Litigation: Forensic work that is performed for an actual or possible legal or regulatory proceeding before a trier of fact (i.e., judge, arbitrator, etc.). The forensic accountant could be serving in the role of an expert witness, consultant, a neutral party, or even as a mediator or arbitrator in connection with a dispute. Litigation does not necessarily mean a formal court proceeding, but could include alternative dispute resolution formats.

Investigation: Forensic services performed as a response to concerns of wrongdoing in which a member would engage in procedures to collect, analyze, evaluate or interpret certain evidential matter to assist stakeholders (i.e., client, board of directors, independent auditor, etc.) in determining the merits of the concern.

The distinction between a litigation engagement and an investigation matter is not static. It is possible that a matter could initially be classified as an investigation engagement, such as when a client suspects fraud on the part of an employee, customer or supplier. The matter could subsequently progress to a litigation engagement if the concern proves justified and the client wishes to seek a remedy.

Further, the forensic services standard also clarifies that it takes precedent over the earlier cited consulting and valuation services standards when overlap might occur. For example, valuation of a business will be governed by this standard rather than the valuation services standard if it is performed as part of a larger litigation or investigation project. In addition, a member cannot serve as an expert witness for one party in a litigation engagement and perform the work under the Agreed-Upon Procedures standard. Rather, the Forensic Services standard will

Don Carpenter is clinical professor of accounting at Baylor University. Contact him at Don_Carpenter@baylor.edu.

apply. The AUP standard can apply if the work is performed for both sides of the dispute or the trier of fact.

The purpose of the work determines the applicable standard. For example, a data analytics project that might fall within consulting services could also be forensic services if performed as part of a litigation or investigation engagement. In the latter case, the forensic services standard would apply. It is incumbent upon the service provider to be cognizant of when a project might progress from its original scope and develop into a litigation or investigation engagement. The member must then clarify with the client an understanding of the work and its requirements.

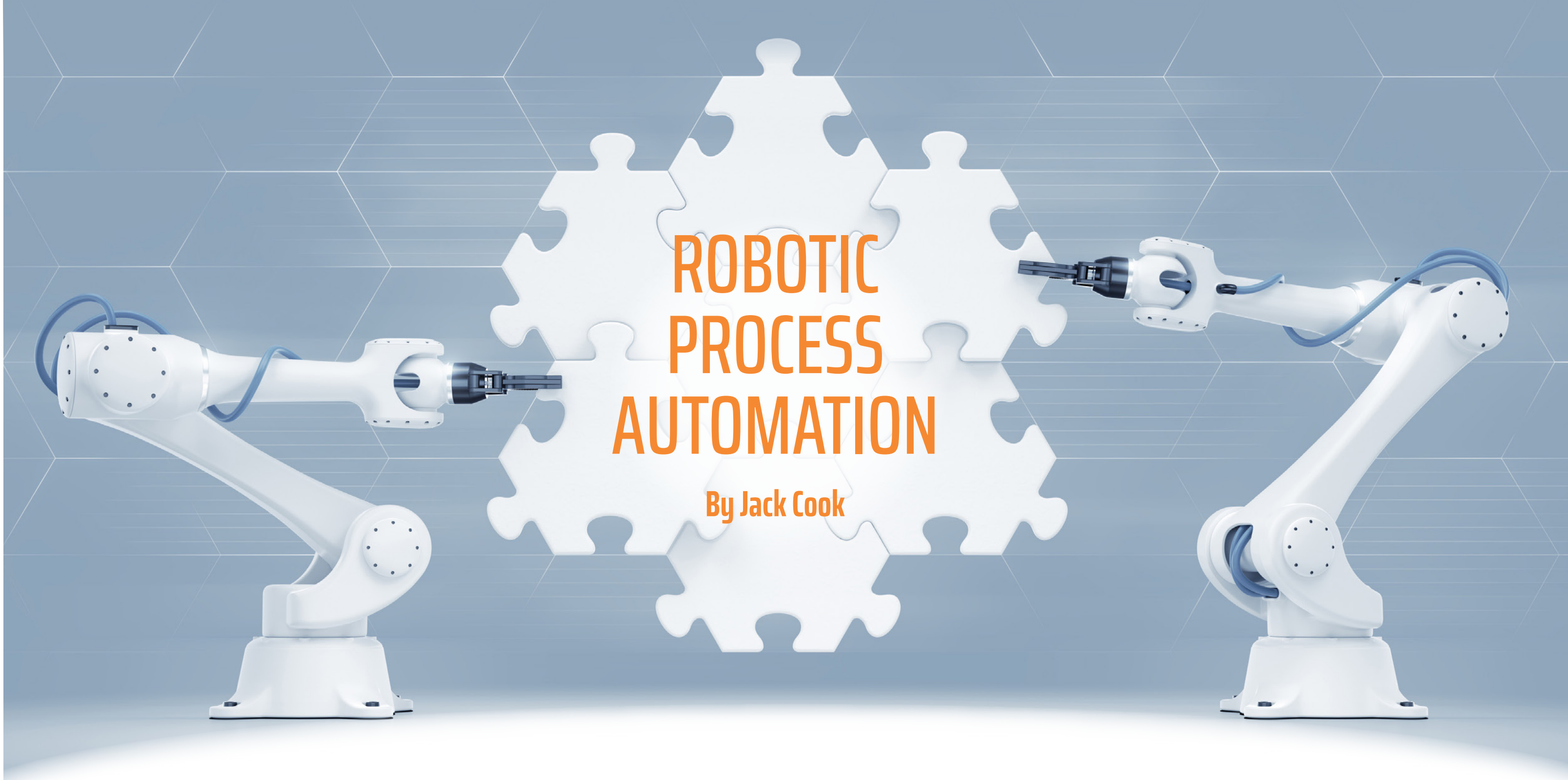
Two specific restrictions regarding litigation engagements further reinforce the importance of being aware of the nature of a project as scope enlarges or changes:

1. A member may not perform forensic services in a litigation engagement under a contingent fee arrangement unless specifically allowed by the "Contingent Fee Rules" (E.T. sec. 1.510.001).

2. Unless the member is the trier of fact, he/she must refrain from expressing an opinion that concludes on fraud. That responsibility rests solely with the trier of fact. The member can, however, express his/her expert opinion as to whether the evidence is consistent with certain elements of fraud.

A member is not governed by this standard if the forensic work is being performed as part of an attestation engagement, such as an audit, review or compilation. It is not unusual for work of a forensic nature to be performed in the context of the attestation regarding the effectiveness of internal controls. Also, work performed internally is not governed by this standard. For example, a forensic accountant on the internal audit staff of a company is not under this standard if he/she is investigating possible fraud committed against his/her employer.

To uphold the reputation of the profession, it is important for accounting professionals to act with integrity when fulfilling client engagements and this standard provides a framework for professional conduct, but also makes it clear that there is not a substitute for professional judgment. These standards do establish boundaries within which professional judgment can be most effectively exercised and serve to remind us just how much variety is offered in the field of accounting today.



ROBOTIC PROCESS AUTOMATION

By Jack Cook

Robotic Process Automation (RPA) will be a larger paradigm shift in accounting than Visicalc, the first electronic spreadsheet and forerunner of Excel. Out went paper spreadsheets and accounting changed forever.

The effects of RPA on accounting will be even greater. RPA will take over complex repetitive tasks and replace them with computer automation. RPAs are relatively easy to implement and cost effective, and compliance risks can be minimized by setting appropriate parameters when set up.

RPAs automate repetitious tasks by mimicking data workflow. It does this by the principle of "monkey see monkey do." The most advanced RPAs "learn" by monitoring the normal data workflow that is performed on a routine basis by accountants. Learning can be accomplished by simply having a firm's accountants continue their daily routine and allowing the RPA to monitor their actions. Over time, an RPA will take over repetitious tasks.

An example of RPAs being deployed is invoices. An RPA can "learn" what data to read on an invoice, determine if the invoice contains the necessary data and then pay the invoice. If the invoice does not contain the required data, the RPA can draft and send an email to the vendor requesting the information needed to complete the invoiced transaction.

RPAs can also be used for more complex repetitive tasks, such as tax returns. Deloitte states that their RPA system can read tax forms, populate the tax software, complete the workpapers and be able to email the client if additional information is needed.[1] This can be completed without human intervention.

RPAs operate as a remote user. This creates some risks regarding data management. CPAs should set parameters to reduce the risks, including these software security protocols:

- Strong password management,
- Awareness of the location of where data is stored, and
- Vigilance on how RPAs manage data.

There are three main providers for RPAs: Automation Anywhere, UI Path and Blue Prism. UI Path and Automation Anywhere have free trials of their software. UI Path is a 60-day free trial and Automation Anywhere is 30 days.

This technology is in the adoption phase. It appears that the companies are attempting to gather market dominance by offering low pricing. If a user can minimize the risks, the return on investment on an RPA is astonishing.

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[1] https://www2.deloitte.com/global/en/pages/tax/solutions/rpa-for-tax.html

Contact Jack Cook at jcook096@gmail.com.

KEN HORWITZ, CPA-DALLAS

TXCPA member Ken Horwitz is a CPA and tax attorney at Glast Phillips & Murray PC in Dallas. He has more than 50 years' experience in a broad general tax and transaction practice that has included sophisticated work in business acquisitions, corporate and partnership taxation, and estate planning.

He serves on TXCPA's Board of Directors and has been active for a number of years on several committees, including as a member and former chair of the Federal Tax Policy Committee, as well as the TXCPA Professional Ethics Committee and Relations with IRS Committee.

It was his passion for cooking, however, that led him to pursue another interesting project – authoring a cookbook. His new book, "Deep Flavors – A Celebration of Recipes for Foodies in a Kosher Style," includes an eclectic anthology of recipes that have been developed and modified based on traditional family favorites. Read on to learn more about Horwitz, his TXCPA service and the story behind his unique new book.

What is your background? Where were you born and where did you grow up?
I was born and grew up in Atlanta, Georgia. I attended Georgia Tech for my undergraduate Bachelor of Science degree and Emory University of Law for my Doctor of Law degree. I married Barbara (Bobbie) and moved to Washington after graduating from law school. I worked at the Internal Revenue Service national office and during that period of time, earned a Master of Laws in Taxation from George Washington University.

Tell us about your family.
I have been married to Bobbie for more than 51 years. We have two children. Our son, Seth, and his wife, Lily, live in Dallas with their two children. Seth practices patent law in Dallas. Our daughter, Lisa, is married to Andrew Costello. They live in New York, where Lisa works for the State of New York in environmental law.

You're a CPA and an attorney. What are your primary responsibilities at your firm?
I am in the active practice of law, although my CPA certificate and experience is central to helping my clients. My focus is on tax and tax-oriented transactions, business acquisitions, corporate and partnership taxation, estate planning, and international tax. I also defend CPAs and represent CPAs in business issues related to their practices.

You're on TXCPA's Board of Directors and have actively served on several committees for a number of years. Why is volunteering or committee service in TXCPA so important to you?
I have been active with TXCPA Dallas and TXCPA at the state level for many years. I find that the relationships I have built in my activities are rewarding in many ways, not the least of which are the many personal friendships that I have built up through my activities here in Dallas and statewide. For example, I cannot overstate the rewarding support and encouragement I have received as I have worked on "Deep Flavors."

My activities with the profession have also been rewarding in enhancing my skills as a practitioner; the volunteer work that I have done has broadened and honed my experiences and professional knowledge, as well as building a resource base to help my clients. I would not give up those relationships and those experiences. I hope to continue to work with the Society on a volunteer basis for many years to come. While it may sound trite, I find that the more I do, the more rewarding those relationships become.

You recently published a new cookbook. Writing a cookbook could be considered outside the usual realm for a CPA and attorney. What led you to write the cookbook? What makes it unique?
Many years ago, when my son was a young teenager (and he is now 43 years old), his youth group met with a girls' youth group in our house one Saturday evening. Bobbie and I were making blintzes, which in

"My approach to cooking is really an extension of what I do in my professional practice. I solve problems."

– KEN HORWITZ

our house is a team project. Two of the girls came up to us and asked us what we were doing and when I told them that we were making blintzes, one of the girls said, "I've never seen anybody make blintzes before." My immediate thought was that our culture was disappearing.

Fast-forwarding a number of years, we were on a cruise up the Yangtze River and sat with a British couple at dinner each night. Since one of my passions is food and cooking, and our table mates also had the same passion, our dinner conversation included food and cooking. At the end of the cruise, the wife, who was the cook, said "You need to write a cookbook and you should call it "Deep Flavors." I had never forgotten the question from the young teenager, 15 to 17 years before, and so I decided to start writing.

My approach to cooking is really an extension of what I do in my professional practice. I solve problems. One of the "problems," at least in my house, is that since we maintain a kosher house, but eat eclectically, is how to convert recipes so that they are kosher (that is, do not contain pork or shellfish, or mix milk or milk products and meat), but without damage to the originals' flavor and texture.

A second problem to be solved is that we like food to be flavorful and delicious, while many recipes do not focus on that aspect, strange as it may seem. Thirdly, many recipes simply do not tell the reader exactly how to cook a recipe or leave out steps or ingredients: many recipes merely set forth ingredients and a sketch of what to do, leaving the reader to guess at the process. I also wanted to let my readers know many tricks and techniques

"Deep Flavors – A Celebration of Recipes for Foodies in a Kosher Style" is available for purchase on Amazon – hard cover and Kindle. It is also available on the website www.deepflavorscookbook.com. The photographs alone will make you hungry!

Reviews on Amazon or the website are welcomed and appreciated.

that help the cook organize the process, locate and process ingredients efficiently and economically, and save time and effort to the extent possible. Finally, I wanted to make the book fun to read.

Do you have a favorite recipe from the book? If so, why is it your favorite?
One of my favorite recipes is Mushroom Pie. This unusual pie is one of the most delicious foods you will ever eat. It is, of course, savory and not a dessert pie, made with a wonderful mixture of domestic and wild mushrooms, shallots or onions, garlic, herbs, Marsala wine, and cheese. This dish is an example of combining one of my creations, the mushroom mixture, with Bobbie's wonderful pie crust for which she is justifiably famous.

What do you find to be the most rewarding aspects of developing this book?
One of the most rewarding aspects of developing this book is the interaction that I've had in that process with my children, particularly my daughter, who supplied commentary, review and a couple of recipes. It's also working with Bobbie to develop recipes that clearly and accurately portray how she cooks some of her specialties, including some of her pies and cakes, together with some of her traditional family specialties that she got from her mother or that we developed together. This book is really and truly devoted to communicating from generation to generation what we have loved and shared in our family for many years.

What advice would you give other CPAs who are interested in writing their own book or pursuing their own passion like you did?
The process of writing a book is, first and foremost, a process of communicating thoughts clearly as I say "in English" to the reader, a process that is not simple to achieve. Writing (and re-writing) will be a lot of work and can consume an enormous amount of time. You need to be sure this is something you really want to do because, in the end, it is not necessarily easy to publish or market the book.

Writing is only part of the process: I had to learn a lot about the publishing business and what it takes to actually get a book in print. Thus, while writing can be rewarding, particularly when you start to get back comments from friends and relatives who have purchased and read what you wrote, there is a long road to get to that point. You need to be sure that is something you want to undertake before you start.

November is TXCPA Month of Service

TXCPA's Young CPAs and Emerging Professionals Committee is hosting Month of Service in November. This is an ideal opportunity for you to participate in a volunteer activity of your choice.

We'll be promoting the Month of Service on our social media channels and our website to highlight the volunteer efforts of members across the state. Be sure to use #TXCPAservice in your public social media posts and check our website to learn about community service activities hosted by your local chapter!

Outstanding Educator Award Recipients Recognized

TXCPA honored the winners of the organization's 2019 Outstanding Accounting Educator Award. The awards recognize accounting educators in Texas who have demonstrated teaching excellence and have distinguished themselves through active service to the profession.

The recipients for 2019 are:

- **Jeffrey Johanns,** CPA, CGMA – Senior Lecturer, The University of Texas at Austin
- **Bill Fowler** – Associate Professor of Accounting, Abilene Christian University

Criteria for judging include instructional innovation, student motivation and learning opportunities, professional and student accounting organization involvement, research and publications. The winners each received a $500 award and a recognition plaque provided by the TXCPA Accounting Education Foundation.

Congratulations to this year's recipients!

New Appointments to the Texas State Board of Public Accountancy

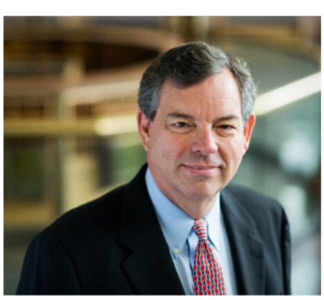
The Texas State Board of Public Accountancy (TSBPA) is the agency responsible for enforcing the Public Accountancy Act and protecting the public. Part of that public protection is to be sure that professional services are provided by qualified CPAs.

TSBPA is made up of 15 board members appointed by the governor, with the advice and consent of the Senate, for six-year staggered terms. In October, Governor Greg Abbott announced the appointment of five new TSBPA members. TXCPA member Debra Seefeld was appointed for a term set to expire on January 31, 2025. She joins seven fellow TXCPA members and seven nonmembers on the TSBPA board.

The TSBPA board includes:

- **Manuel "Manny" Cavazos IV, Esq.**, CPA, Presiding Officer, Austin
- **Roselyn "Rosie" Morris, Ph.D., CPA**, Assistant Presiding Officer, San Marcos
- **Benjamin "Ben" Peña, CPA**, Treasurer, Brownsville
- **Timothy L. "Tim" LaFrey, Esq., CPA**, Secretary, Austin
- **Lisa A. Friel, CPA**, Executive Committee Member-at-large, San Antonio
- **Ross T. Johnson, CPA**, Executive Committee Member-at-large, Houston
- **Kimberly E. Wilkerson, Esq.**, Executive Committee Member-at-large, Lubbock
- **Kelly V. Aimone, Esq.**, Houston
- **Jamie D. Grant**, Arlington
- **James D. "Jim" Ingram IV**, CPA, College Station
- **Kevin J. Koch, CPA**, Temple
- **Debra D. Seefeld, CPA**, Montgomery
- **Debra S. Sharp**, Houston
- **Joyce A. Yannuzzi**, New Braunfels

2019 Outstanding Accounting Educator Awards



Jeffrey Johanns, CPA, CGMA – Senior Lecturer, The University of Texas at Austin

Bill Fowler – Associate Professor of Accounting, Abilene Christian University

TXCPA

Leadership Nominations Results for 2020-2021 Positions

The following individuals were nominated for terms beginning June 1, 2020 and have consented to serve, if elected by the TXCPA members. Election of officers, directors-at-large, members of the Nominations Committee, and members of the Executive Board will be conducted through an electronic ballot sent to members in November.

OFFICERS

Jason B. Freeman (Dallas) Chairman-elect (Chairman 2021-2022)
Susan S. Roberts (Fort Worth) Treasurer-elect (Treasurer 2021-2022)
Priscilla A. Soto (San Antonio) Secretary (2020-2021)

EXECUTIVE BOARD

(Three-year Term Expiring 2023)
Jimmy J. Hudson (Permian Basin)
Kate I. Rhoden (Austin)

DIRECTORS-AT-LARGE

(Three-year term expiring 2023)
Lara A. Akinboye (Austin)
Brandon R. Booker (Dallas)
Marylyn M. Byrd (Southeast Texas)
Jesse Dominguez, Jr. (Austin)
Brandon S. Honea (Dallas)
William J. Kelley, Jr. (Permian Basin)
Andrew J. Merryman (Victoria)
Kelly G. Noe (East Texas)
Blake R. Rodgers (Dallas)
Joan E. Schwartz (San Angelo)
Stephanie A. Shaner (Fort Worth)
Gary Tonniges (Fort Worth)

DIRECTORS-AT-LARGE

(Replacements)
Cory Joiner (Panhandle) – nominated as a replacement for Jimmy Hudson – term ending May 2022

Christi A. Mondrik (Austin) – nominated as a replacement for Jeremy Myers – term ending May 2021

NOMINATIONS COMMITTEE (2020-2021)

Sandra K. Bembenek *(Fort Worth)*
Max O. Duplant *(Dallas)*
Mohan Kuruvilla *(Houston)*
Chip B. Majors *(Southeast Texas)*
Misty G. Mata *(Corpus Christi)*
Imelda A. Moreno *(El Paso)*
Jeremy Myers *(Austin)*
Royce E. Read *(East Texas)*
Priscilla A. Soto *(San Antonio)*
Sally W. Wolfe *(Central Texas)*

As TXCPA immediate past chairman in 2020-21, Lei Testa (Fort Worth) will automatically serve as chair of the 2020-21 Nominations Committee. Royce Read was appointed as vice chair. In accordance with the TXCPA Bylaws Article VIII(4), the two most recent past chairs, Jim Oliver (San Antonio) and Stephen Parker (Houston), will also serve as members on the 2020-21 Nominations Committee.

The Nominations Committee also recommends that the names of the following individuals be forwarded to the American Institute of Certified Public Accountants as representatives from Texas to serve on the AICPA Council:

AICPA COUNCIL (TERMS BEGIN MAY 2021)

Sheila A. Enriquez *(Houston)* – Three-year term expiring 2024
William D. Schneider *(Dallas)* – Three-year term expiring 2024
Lei D. Testa *(Fort Worth)* – Three-year term expiring 2024
Jerry D. Spence *(Corpus Christi)* – One-year designee (2021-22)

Accountants Confidential Assistance Network Resources

A Four-point Plan for Reducing Stress

TXCPA PEER ASSISTANCE

For 25 years, the TXCPA Peer Assistance Foundation has made a positive impact on the CPA profession in Texas. In 2019, we're celebrating the Accountants Confidential Assistance Network (ACAN) and the work they do to help CPAs, exam candidates and accounting students learn how to merge healthier living with a demanding accounting career.

Accountancy has long been a stressful, high-stakes profession. Making daily investments in a sound mind and body can pay dividends at work and in your personal life. The following four wellness categories are crucial:

1. Get regular exercise
2. Develop good sleep habits
3. Embrace a healthy diet
4. Practice mindfulness techniques

Each of these practices is important for you to perform at a high level and has benefits of its own, but they can work especially well when you apply them in concert. When you treat yourself with care and consideration, you can go to the office with a fresh perspective every day.

Source: *Journal of Accountancy*
Amy Vetter, CPA/CITP, CGMA
Published online September 23, 2019

TXCPA 2019 RISING STARS

By Kari Owen and DeLynn Deakins

Through the Rising Stars Program, TXCPA recognizes CPA members 40 years old and younger who have demonstrated innovative leadership qualities and active involvement in TXCPA, the accounting profession and/or their communities. A TXCPA selection committee named the following 20 up and comers based on their contributions to the accounting profession and their communities. We now introduce you to the members, in alphabetical order, who are the Rising Stars honorees for 2019.

TXCPA 2019 RISING STARS

Lara Akinboye, CPA, CFE, CMA
Senior Tax Advisor
Durbin Bennett Tax Advisors Inc., Austin

Lara Akinboye is a senior tax advisor at Durbin Bennett Tax Advisors, where she is responsible for preparing and reviewing federal and state tax returns, as well as training new staff on best practices. She is an active member in TXCPA Austin, where she has served on the chapter's Executive Board, chaired the Leaders Emerging in the Accounting Profession (LEAP) program and participated in student outreach initiatives as a member of the Accounting Career Exploration Panel. In the community, she considers one of her most significant achievements to be her work with the IRS' Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs that assist the elderly and low-income families. She approaches her professional involvement and community service activities with an attitude of diligence and the desire to make an impact no matter how small.

Robert Allen
CPA, CFE, CTL, MBA, MSIS, ALMI
President
The Allen CPA Firm, Houston

Robert Allen founded his accounting firm to assist individuals and businesses by focusing on their long-term financial well-being, believing that those who build a solid financial foundation can realize their dreams. He serves in many volunteer roles. He's a committee member for TXCPA Houston's CPAs Helping Schools program, which provides funding to local districts for educational projects. He also serves with several other community and professional organizations, but he considers one of his most significant accomplishments to have been a mission trip to Temale, Ghana to rebuild and renovate a children's orphanage, including the children's playground area. With only two weeks and working in 90+ degree temperatures, his team was able to complete the project. He stresses the importance of never giving up despite the challenges and is convinced that individuals are much stronger as a team.

Marianne Barry, CPA
Director, Finance
Cook Children's Physician Network, Fort Worth

In her position at Cook Children's Physician Network in Fort Worth, Marianne Barry is responsible for physician financial reporting and compensation calculation. Being promoted twice with the same employer has allowed her to advance professionally and she shares her knowledge with others through the mentorship of CPAs within her organization. She has served on TXCPA Fort Worth's Board of Directors for a number of years, as well as on the Business and Industry Committee and the Executive Committee as the vice president of programs and secretary. Her work in the community includes roles at her church and at the Texas Ballet Theater School Society. She considers her work helping others grow personally and professionally to be very exciting and rewarding.

Adrian Brito, CPA
Tax Shareholder
Lauterbach, Borschow & Co., El Paso

Adrian Brito is one of the youngest shareholders in the tax practice of Lauterbach, Borschow & Co. He has served a diverse client base and earned a reputation as an expert in tax advising for businesses, particularly in the real estate industry. Brito's dedication to the accounting profession is evident in his service as a board member for TXCPA El Paso and on the NMSU College of Business Advisory Board. He is also an active member of his community. He volunteers at his church and serves as the treasurer of Rotary Club of El Paso's free health clinics, Rotacare. He is well regarded by his colleagues and recognized as one of the El Paso area's rising CPA stars.

Stephanie Buduhan, CPA
Audit Manager
PSK LLP
Fort Worth

At PSK LLP, Stephanie Buduhan is an audit manager who prides herself on maintaining strong relationships with clients and serving as a trusted advisor. She enjoys communicating the value of the CPA license to others, particularly to accounting students, through her involvement in various TXCPA Fort Worth activities. Her community involvement includes working with the Greater Arlington Chamber of Commerce Women's Alliance, a group that raises funds to provide scholarships to women enrolled in college in Arlington. She also serves on the Board of Directors of Higher Education Servicing Corporation, a nonprofit student loan servicing agency that aims to inspire students to achieve a higher education through its outreach division, inspirED.

Caitlin Chupe, CPA
Shareholder
Collier, Johnson & Woods, PC
Corpus Christi

As a shareholder at Collier, Johnson & Woods, Caitlin Chupe manages key client relationships and approves audit plan and staffing assignments for various governmental, not for profit and financial institutions, as well as employee benefit plans. She is considered to be very knowledgeable in her field and is the youngest shareholder at her firm. She has served on TXCPA Corpus Christi's Board and at the state level, on TXCPA's Board of Directors. She also participates in activities for young and emerging professionals at both the state and local level. She is passionate about encouraging young professionals to roll up their sleeves and take ownership in their community and profession, and she seeks to guide future CPAs with any challenges or questions they encounter.

Kate Devey, CPA
Tax Manager
Johnson, Miller & Co., CPAs
Midland

Kate Devey is a tax manager at Johnson, Miller & Co., where she oversees a diverse portfolio of client engagements and relationships, collaborates with management, and is actively engaged in staff development, training and process implementation. She has served on TXCPA Permian Basin's Board of Directors, and is active as part of the CPE Committee, Outreach Committee and Young & Emerging Professionals Committee. She serves her community as vice president for Mission Center Adult Day Service in Midland. In this role, she assists in planning, organizing and developing their annual fundraisers and increasing awareness of the organization's services to improve their presence and recognition in the community. She is regarded as a volunteer who is always quick to jump in and help in any way possible.

Rachel Glasser, CPA
Audit Supervisor
Stovall, Grandey & Allen, LLP
Fort Worth

Rachel Glasser began her career at Stovall, Grandey & Allen as an intern and is now an audit supervisor. Her primary responsibilities include managing audits and reviews for a diverse range of clients. She is an active member of TXCPA Fort Worth, striving to lead her peers through education while advancing the CPA image. Her service includes being a committee member, writing an article for a local publication, participating in the leadership development program and speaking at TXCPA Fort Worth events. She is also a dedicated volunteer with the Girl Scouts organization. Being recognized as a valued member of the CPA community is extremely important to her. She looks to give back to her profession and the public to ensure there are opportunities for individuals in the future.

Phillip Hernandez, CPA
Tax Manager
BKD LLP
Fort Worth

Phillip Hernandez is a tax manager at BKD LLP in Fort Worth. He actively participates with TXCPA Fort Worth, serving in a leadership role in the young professionals group and making a number of innovations that enable rapid growth of the chapter's November service project. He also serves on The University of North Texas (UNT) Junior Accounting Advisory Board (JAAB), which advises the chair of the accounting department about curriculum and professional development issues, and was on the board of directors of a not-for-profit entity called Project 2713. This organization exists to support local and inner-family adoptions. He considers it very important and rewarding to use his knowledge and skills as a CPA to help others in his profession and community.

Jessica Lopez, CPA
Director of Finance & Controller
All Web Leads, Inc.
Austin

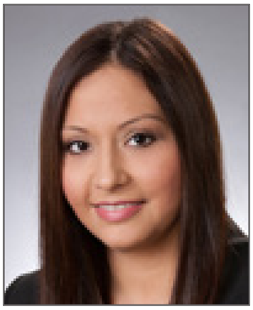
As the director of finance and controller, Jessica Lopez manages and mentor's AWL's accounting team, oversees internal financial reporting functions, manages the monthly close cycle, evaluates and applies technical accounting guidance, and more. Her extensive participation with TXCPA Austin includes serving as treasurer-elect and serving on the Leaders Emerging in the Accounting Profession (LEAP) Committee and the Membership Committee. She has also assisted in reviving the chapter's leadership development program, Pathway to Leadership. In the community, she has been involved with a number of civic organizations, including Keep Austin Beautiful and the Central Texas Food Bank. Lopez finds great satisfaction in leading and encouraging a high-performing team, volunteering, and growing both professionally and personally.

Laura Mardis, CPA
Tax Manager
LaPorte CPAs & Business Advisors
Houston

Laura Mardis has been with LaPorte CPAs since 2012. She serves in the tax services department, managing client relationships, compliance, training and development of staff. Mardis is actively involved with TXCPA Houston and volunteers on the CPAs Helping Schools Committee. In this role, she enjoys talking to students about accounting careers. She has presented to several audiences, such as Junior Achievement Inspire and the Expanding Your Horizons in Science and Mathematics 26th Annual Conference. She was awarded TXCPA Houston's Outstanding Young CPA award in 2018 for volunteer work with this committee.

Brett Morrison, CPA
Managing Partner
Jennings, Hawley & Co., P.C.
Corpus Christi

Brett Morrison's most significant business achievement was rising to the position of managing partner at Jennings, Hawley & Co., P.C. before he turned 30. In this position, he manages the firm, oversees tax planning for clients and prepares advanced tax returns. He served as president of TXCPA Corpus Christi in 2018-19 and continues to be involved in student and college activities at the chapter level. He enjoys attending career days at local high schools and universities to offer advice and insight into the accounting profession. In addition to his work with TXCPA, he serves as a board member of the USS Lexington Museum on the Bay Association.



Nina Perez, CPA
Tax Principal
Briggs & Veselka Co.
Houston

Nina Perez has worked at Briggs & Veselka for more than 10 years. She currently serves as a tax principal, where she is responsible for the preparation and review of large corporate and individual federal, state and international tax returns. Her biggest personal achievement was becoming the first person in her family to graduate from college. To accomplish her goal of becoming a CPA, she worked during the day and attended school at night while raising two young children. Today, she is passionate about helping students and serving as a mentor for the next generation of CPAs. She is also active within TXCPA Houston and has served on their Community Services Committee, Scholarship Extravaganza Committee and Membership Committee.

Heather Sanders, CPA
Tax Manager
Henry & Peters, PC
East Texas

As a tax manager at Henry & Peters, PC, Heather Sanders focuses on tax planning, reporting and compliance services for individuals, partnerships and corporations, trusts, and estates. She continually seeks opportunities to promote the CPA profession and creates programs to assist aspiring CPAs. In 2018, she helped develop a mentorship program between TXCPA East Texas and UT Tyler. She currently volunteers as a mentor at UT Tyler and helps recruit students to the profession by speaking at local high schools. She also serves as treasurer of The University of Texas at Tyler Advisory Council and is an active member of TXCPA East Texas' Young CPAs Committee and the Tyler Young Professionals Network.

Lauren Seaux, CPA
Assistant Controller
The Signature Group
Southeast Texas

Lauren Seaux is the assistant controller at The Signature Group, where she assists with the accounting operations of the company, including the production of periodic financial reports, maintenance of an adequate system of accounting records, and a comprehensive set of controls and budgets. Her commitment to the accounting profession is demonstrated through her active involvement in TXCPA and chapter-level programs. She is serving her second year on TXCPA Southeast Texas' Board of Directors, where she participates in a variety of programs to support Lamar University, scholarship fundraising and community awareness. She is also a graduate of TXCPA's 2018 Leadership Development Institute. Outside of TXCPA, she is a member of the United States Tennis Association, Leadership Southeast Texas and St. Elizabeth Catholic Church of Port Neches.

Stephanie Shaner, CPA
Tax Manager
Averett Financial, LLC
Fort Worth

Stephanie Shaner has held several accounting positions since 2005 and has extensive experience in tax preparation and consultation. She has been an instrumental leader in the development of TXCPA Fort Worth's "Under 40" programming and was honored recently as their Young CPA of the Year. She is currently the chair of TXCPA's Young and Emerging Professionals Committee. Shaner has served on the TXCPA CPE Advisory Board, TXCPA Fort Worth's UP Group, TXCPA Fort Worth's Young Professionals Planning Committee, as well as other groups. She currently serves as the treasurer-elect of TXCPA Fort Worth. In addition to her work with TXCPA, she provides volunteer accounting and data entry services to Rivertree Academy, a community-funded private school for under-resourced students in the Lake Como neighborhood.

Megan R. Terrell, CPA
Principal – Nonprofit and Governmental Lead, Texas
CliftonLarsonAllen LLP
Fort Worth

As a principal for CliftonLarsonAllen, Megan R. Terrell leads the firm's Nonprofit and Governmental team for Texas, dedicating the majority of her time to serving nonprofits, governmental organizations and employee benefit plans. She has demonstrated her commitment to the profession through active participation in TXCPA Fort Worth's CPA-PAC, which she chaired for two years. She is also one of the few in her age group to serve as a member of TXCPA's Legislative Advisory Committee. In addition to her work with TXCPA, she volunteers with The Ladder Alliance, First Baptist Church of Benbrook and Women's Policy Forum of Tarrant County.

Lucy Turek, CPA
Tax Manager
BKM Sowan Horan
Dallas

Lucy Turek is a tax manager at BKM Sowan Horan, where she manages the preparation, work flow and completion of both personal and business tax clients. She is actively involved with TXCPA Dallas as a committee member, and former graduate, of the Leadership Development Academy, as well as past co-chair of the Young Professionals Group. She also serves on the University of North Texas Department of Accounting Junior Advisory Board. In 2018, Turek had the opportunity to present her leadership styles at the 2018 TXCPA Fort Worth Career Development Forum. Her most significant personal achievement was passing the CPA Exam within 12 months using her own self-study program. Her hard work, leadership and dedication to helping the next generation of CPAs have earned her respect and recognition by her peers.

Chad Valentine, CPA
Partner – Assurance Services
Weaver
Permian Basin

Chad Valentine currently serves as an assurance services partner at Weaver and has more than 12 years of experience in public accounting. He focuses his practice in audit, review and agreed-upon procedures for public and private energy companies. He is active in TXCPA Permian Basin, currently serving as president for the 2019-2020 year. In addition, he is an active member of Young Professionals in Energy and volunteers with the Boy Scouts of America – Buffalo Trail Scout Council as treasurer and member of the executive board. In 2017-2018, he was named Outstanding Executive Director by TXCPA Permian Basin for his numerous volunteer efforts.

Rubik Yeriazarian, CPA
Principal
Briggs & Veselka Co.
Houston

Rubik Yeriazarian is a forensic, valuation and litigation support principal at Briggs & Veselka Co. Throughout 11 years in public accounting, he has provided forensic accounting and litigation support services to numerous clients in the areas of complex commercial litigation, fraud investigations, anti-fraud, waste and abuse, and compliance matters. He is active in TXCPA Houston, currently serving on the Board of Directors, and as a member of the CPAs Helping Schools Committee. He is also involved with Future Business Leaders of America (FBLA), a high school business organization that has had a significant impact on his personal and professional life, and regularly volunteers at FBLA workshops and events at the district, state and national levels.

Rising Star Nominations Now Open!

Do you have a friend or colleague who has shown innovative leadership qualities within the accounting profession, their local community or TXCPA?

We want to hear from you! Anyone can nominate a rising star, but the nominees must be TXCPA members. Nominations can be made on our website at tscpa.org and must be completed by December 16, 2019.

FEATURE

MY CLIENT DIED: TOP 10 LIST OF TAX AND LEGAL QUESTIONS

By Christopher C. Weeg, J.D., LL.M, CPA

Estate planning and tax attorneys regularly work with a client's CPA during estate administrations. Countless issues arise during this lengthy process, including questions on accounting, federal tax law, state property and probate law, and the interpretation of the decedent's will and trust agreements.

The purpose of this article is to answer the top 10 common questions that clients ask during an estate administration. Keep in mind, each of these topics warrants further detailed discussion; for this article, the approach is a mile-wide-and-an-inch-deep overview of the subject matter.

What is an Estate?

This article covers federal tax issues, but we generally must look to state law for the legal ownership and transfer of assets to determine federal tax consequences. Let's first examine the concept of an estate under Texas law. At the moment of death, a decedent's property becomes his/her estate. Therefore, an estate is comprised of assets and liabilities that produce income and incur expenses. An executor of an estate controls the estate property and is tasked with managing estate assets, paying off estate liabilities and distributing the remainder to the estate's beneficiaries.

For a married decedent, Texas community and separate property laws affect what the decedent's estate and the surviving spouse own. Community property is generally all property acquired during marriage not otherwise characterized as separate property, subject to a few exceptions.

A decedent's separate property becomes estate property and a surviving spouse's separate property remains his/her own. Community property upon death vests one-half in the estate (and ultimately its beneficiaries) and one-half in the surviving spouse, who may request a partition of the property into two equal moieties. For example, a community property brokerage account is owned equally between the decedent's estate and the surviving spouse. Accordingly, the estate reports income attributed to its one-half ownership in the account and, likewise, the surviving spouse reports income attributed to his/her one-half ownership.

For federal tax purposes, an estate is a separate taxable entity with its own taxpayer identification number (or EIN) and income tax filing requirements. An estate's taxable income is calculated in the same manner as an individual with a few exceptions.

How is Income Reported in the Year of a Decedent's Death?

The executor of a decedent's estate files and signs the decedent's final income tax return (Form 1040). The filing of the final Form 1040 and payment of tax may be made as though the decedent lived throughout his/her last taxable year. An individual's final tax year, however, ends on the date of death and only amounts properly includable under the method of accounting used by the taxpayer are included in the computation of taxable income for that year.

Thus, for a cash-basis taxpayer, income actually or constructively received and expenses actually paid until the decedent's date of the death are reported on the final return, and income and deductions arising after death are reported on the income tax return for the decedent's estate (Form 1041). Finally, items of income that the decedent was entitled to receive, but not properly includable in the decedent's final Form 1040, are considered income in respect of a decedent and are included in the gross income of the estate or beneficiary who receives the income.

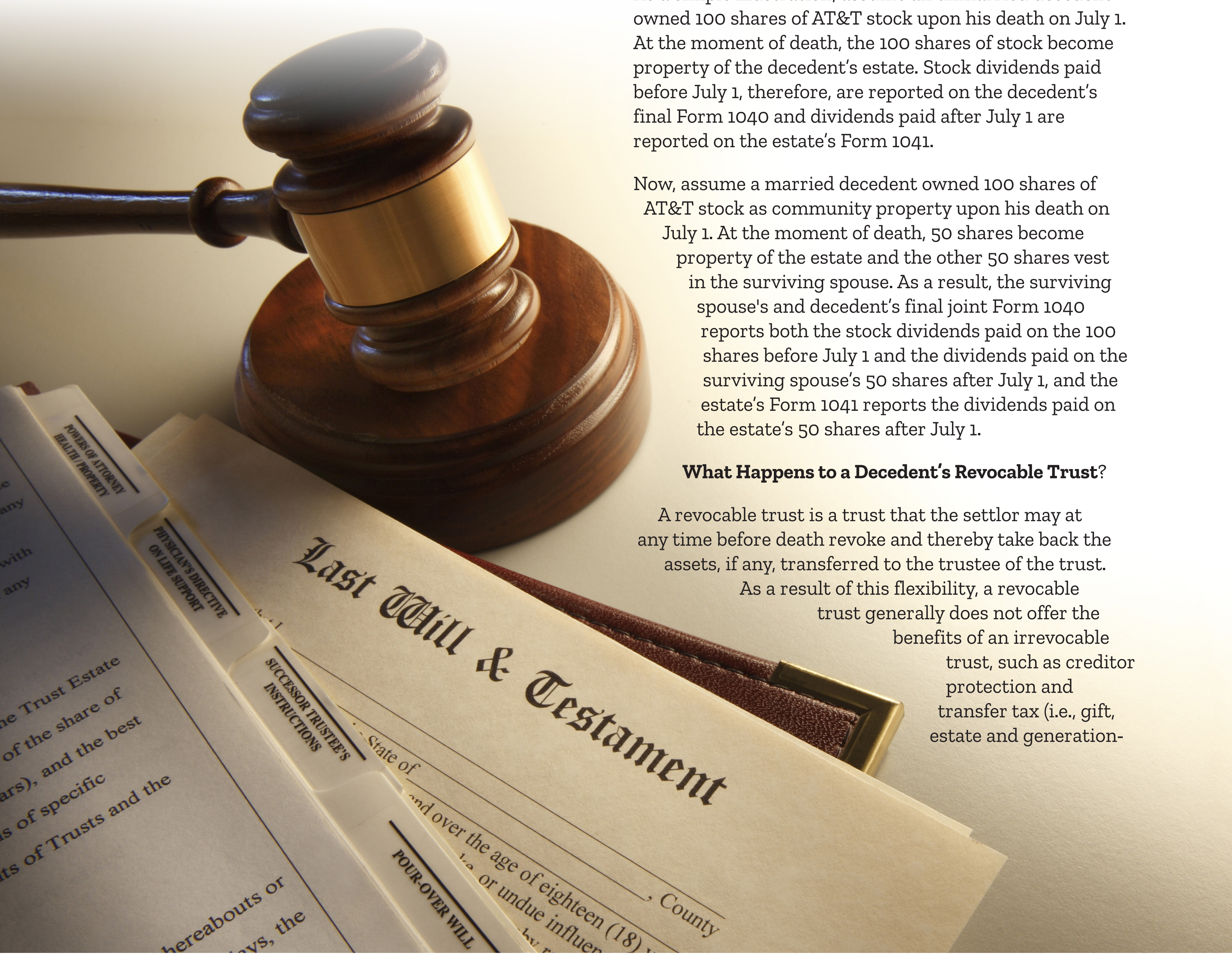
For a married decedent, the surviving spouse and executor may file a joint Form 1040 that reports the spouse's income and deductions for the full year and the decedent's pre-death income and deductions. The decedent's post-death income and deductions are reported on the estate's Form 1041.

As a simple illustration, assume an unmarried decedent owned 100 shares of AT&T stock upon his death on July 1. At the moment of death, the 100 shares of stock become property of the decedent's estate. Stock dividends paid before July 1, therefore, are reported on the decedent's final Form 1040 and dividends paid after July 1 are reported on the estate's Form 1041.

Now, assume a married decedent owned 100 shares of AT&T stock as community property upon his death on July 1. At the moment of death, 50 shares become property of the estate and the other 50 shares vest in the surviving spouse. As a result, the surviving spouse's and decedent's final joint Form 1040 reports both the stock dividends paid on the 100 shares before July 1 and the dividends paid on the surviving spouse's 50 shares after July 1, and the estate's Form 1041 reports the dividends paid on the estate's 50 shares after July 1.

What Happens to a Decedent's Revocable Trust?

A revocable trust is a trust that the settlor may at any time before death revoke and thereby take back the assets, if any, transferred to the trustee of the trust. As a result of this flexibility, a revocable trust generally does not offer the benefits of an irrevocable trust, such as creditor protection and transfer tax (i.e., gift, estate and generation-



skipping transfer tax) planning, but it does provide asset management, probate avoidance and privacy. Typically combined with a pour-over will, a revocable trust often serves as the integral document in a decedent's estate plan that will control the disposition of assets upon death and creates marital deduction, bypass and generation-skipping transfer (GST) trusts.

During life, a revocable trust is treated as the settlor's "grantor trust" for federal income tax purposes, meaning the settlor is the deemed owner of the trust assets and reports income earned thereon on his/her Form 1040 and pays the associated tax. Upon the settlor's death, a revocable trust becomes irrevocable and, therefore, a non-grantor trust for federal income tax purposes. A non-grantor trust is generally taxed as a simple or complex trust depending on the terms of the trust agreement.

Where a revocable trust is funded during life, the trust will likely have its own income tax filing requirement upon the settlor's death, in addition to the estate's own filing requirement. To simplify reporting in this situation, the fiduciary may make a "645 election" that permits a decedent's "qualified revocable trust" to be treated as part of the decedent's estate for federal income tax purposes. This election permits the trust and estate to report their income on one Form 1041. Additionally, by treating the trust as part of the estate, the trust is eligible for advantages to which it would not otherwise be entitled, such as reporting income on the estate's fiscal year, which may defer income to a future tax year and taking a charitable deduction for amounts permanently set aside under Internal Revenue Code (IRC) § 642(c).

During life, a revocable trust is treated as the settlor's "grantor trust" for federal income tax purposes ...

The 645 election is irrevocable and must be made on Form 8855 no later than the due date of the estate's first income tax return. The election is effective for up to two years after the decedent's death if no estate tax return is required to be filed, or six months after the date of final determination of the estate tax liability if an estate tax return is required.

The tax reporting is more complicated where a married couple funded a revocable trust during life. Assuming the spouses transferred community property, one-half of the trust remains a revocable grantor trust with respect to the surviving spouse's transferred assets and the other half of the trust becomes an irrevocable non-grantor trust with respect to the deceased spouse's transferred assets. One-half of the trust income, therefore, is reportable by the surviving spouse on his/her Form 1040 and the other is reportable by the newly irrevocable non-grantor trust (again, either a simple or complex trust) on a Form 1041.

What Happens to a Decedent's Irrevocable Grantor Trust?

Irrevocable grantor trusts, also called intentionally defective grantor trusts, are a powerful tool in the estate planner's toolbox. If structured properly, the settlor is the deemed owner of the trust assets for federal income tax purposes, but the trust assets are not includable in the settlor's gross estate for estate tax purposes. A common grantor trust power is the settlor's right to reacquire trust assets by substituting other assets of equivalent value.

Because the trust is a grantor trust, the settlor reports, and pays the tax on, the trust income. This permits the assets of the trust to grow income tax-free outside of the settlor's gross estate for estate tax purposes and, importantly, the settlor's payment of the trust's income tax does not result in a taxable gift to the trust.

Upon the death of the settlor, a grantor trust that continues after death becomes a non-grantor trust for federal income tax purposes and must obtain a new EIN, regardless of whether the trust previously obtained an EIN during the settlor's life. The concept here is the trust assets have a new owner for federal income tax purposes (i.e., from the settlor to the trust) and, therefore, needs a new EIN. If the trustee used the traditional reporting method of filing a "skeleton" Form 1041 with an attached statement of the items of income, deduction and credit, the grantor trust should file a final Form 1041 as a grantor trust and an initial Form 1041 as a non-grantor trust. The grantor trust's final Form 1041 for the short year ending with the settlor's death is due on the same day the decedent's final Form 1040 is due.

A grantor trust with two settlors poses additional complications, but the reporting answer is analogous to a dual settlor revocable trust. During life, each spouse is treated as the grantor for federal income tax purposes with respect to one-half of the trust. On the death of the first spouse, the one-half of the trust treated as the deceased spouse's grantor trust becomes a non-grantor trust and the one-half of the trust treated as the surviving spouse's grantor trust remains a grantor trust. In this scenario, the trust continues to report under the EIN previously used by the trust, provided that the portion of the trust treated as being owned by the deceased spouse remains part of the original trust and the other portion continues to be treated as being owned by the surviving spouse.

TXCPA OFFERS A NUMBER OF CPE PROGRAMS THAT COVER ESTATE PLANNING ISSUES. OPTIONS ARE AVAILABLE FOR LIVE PROGRAMMING, WEBCAST AND ON DEMAND. VISIT THE EDUCATION AREA OF OUR WEBSITE AT TSCPA.ORG TO FIND CPE, LEARN MORE AND REGISTER.

What Happens to S Corporation Stock?

S corporation stock, whether owned individually or by a trust, merits special attention upon death. Congress presumably did not want a shareholder's death to terminate an S election, so an estate of a deceased S corporation shareholder is a permitted shareholder during the period of administration. If the executor transfers the S corporation stock to a trust, the trust will need to qualify as a permitted shareholder, generally requiring an election as a qualified Subchapter S trust (QSST) or an electing small business trust (ESBT).

A QSST is a permitted shareholder of an S corporation during the life of the income beneficiary. If the death of the beneficiary causes the trust to fail to qualify as a QSST, it may still continue to hold the S corporation stock for a two-year period following the beneficiary's death. If, after the two-year period, the trust continues to hold S corporation stock and does not otherwise qualify as a permitted shareholder, the corporation's S election will terminate.

A grantor trust is a permitted shareholder of an S corporation during the life of the deemed owner of the trust. Upon the death of the deemed owner, the trust may continue to be a permitted shareholder for the two-year period following the deemed owner's death. After this two-year period, the trust will need to make a QSST or ESBT election to prevent the termination of the corporation's S election.

Finally, suspended losses with respect to S corporation stock expire upon the shareholder's death because suspended loss carryovers are personal to the shareholder and cannot be transferred. With respect to a grantor trust, the deemed owner is treated as the shareholder. Accordingly, a grantor trust's suspended losses expire upon the death of the deemed owner. For a dual settlor grantor trust, the result should be that one-half of the suspended losses with respect to the deceased deemed owner expires on death and the remaining one-half with respect to the surviving deemed owner should continue.

What is the New Basis of a Decedent's Assets Upon Death?

The income tax basis of property acquired from a decedent is adjusted to the fair market value as of the decedent's death. This basis is, thus, "stepped-up" where an asset's fair market value exceeds the decedent's tax basis, or "stepped-down" where basis exceeds fair market value. With a community property asset, both halves of the community (i.e., the estate's and the surviving spouse's) are adjusted to fair market value. Assets held in a revocable trust and a qualified terminable interest property (QTIP) trust, as well as property over which the decedent possessed a general power of appointment, also receive a basis adjustment on death of the settlor, spousal beneficiary and powerholder, respectively.

If a near-death client owns loss property (i.e., basis exceeds fair market value), it may be advisable to sell the property, recognize a loss and thereby avoid a basis step-down on death. Alternatively, a married taxpayer may gift the loss property to his/her spouse, who will take a carry-over basis in the gifted property. This is an exception to the general rule that the basis of gifted loss property in the donee's hands equals the property's lower fair market value, rather than the donor's higher basis.

Should I Make a 754 Election for a Decedent's Partnership Interest?

If a client dies owning an interest in a partnership or limited liability company taxed as a partnership, be sure to analyze whether an IRC § 754 election (754 election) should be made to increase the deceased partner's share of the inside basis of the partnership assets to match the newly adjusted outside basis in the partnership interest pursuant to IRC § 743 (743 adjustment). A partnership must make a 743 adjustment, even if it does not have a 754 election in place, if its assets have a "substantial built-in loss" immediately after a transfer of a partner's interest at death. A partnership has substantial built-in loss if the adjusted bases of its assets exceed the fair market value by more than $250,000.

The mechanics of the 743 adjustment are beyond the scope of this article, but in short, the benefit of an upward adjustment – which applies only to the transferee partner and not the other partners of the partnership – is a higher income tax basis in the partnership assets for calculation of capital gain and depreciation deductions allocated to that partner.

When to File a Form 706

An estate tax return (Form 706) must be filed if the value of the gross estate exceeds the basic exclusion amount for the year of death, even if no estate tax is due. For 2019, the basic exclusion amount is $11,400,000. Thus, if the estate of a decedent dying in 2019 has a value of $15,000,000 and passes to the surviving spouse under the marital deduction, no estate tax is due, but the executor must still file a Form 706.

Even if the value of the decedent's estate does not exceed the filing threshold, the executor may still want to file a Form 706 to elect portability of the decedent's deceased spousal unused exclusion (DSUE). Portability is not automatic; the executor must timely file a Form 706 to "port" the DSUE to the surviving spouse, who may then use the DSUE during life against gift tax or at death against the estate tax. To ease the administrative burden of making a portability election, estates below the filing threshold have relaxed reporting requirements for certain marital deduction and charitable deduction property. The cost of filing a Form 706 solely for portability purposes must be weighed against the potential for estate tax at the surviving spouse's death, which is affected by the spouse's age, remaining assets, growth and consumption of those assets, and the basic exclusion amount available on his/her death.

If a Form 706 will be filed, the executor will need to decide whether the CPA or the probate lawyer will prepare the return. The CPA, if preparing the return, should discuss the decedent's estate plan with the probate lawyer and offer to review the return before filing, depending on the CPA's comfort level and experience, particularly with regard to GST allocations made on Schedule R of the Form 706.

Regardless of who prepares the return, the CPA and probate lawyer should have open communication during this time, as both parties have unique knowledge of the client's tax, accounting and legal history. As a final preparer tip, while there is no replacement for reviewing the Code and Regs, the Form 706 instructions are surprisingly thorough and helpful, as well as the PPC 706/709 Deskbook.

What is the (Relatively) New Form 8971?

The IRS introduced Form 8971, Information Regarding Beneficiaries Acquiring Property From a Decedent, for estate tax returns filed after July 31, 2015, in accordance with the basis consistency provisions in IRC §§ 1014(f) and 6035(a). Within 30 days of filing the Form 706, the executor must file Form 8971 with the IRS and provide the accompanying Schedules A to the beneficiaries. The executor, however, does not need to file this form if there was no estate tax return filing requirement, such as when the Form 706 is filed for portability purposes only. Potentially severe penalties apply for failure to correctly and timely file the Form 8971 and furnish a Schedule A.

How Do I Request an Estate Tax Closing Letter?

An estate tax closing letter confirms if the Form 706 has been accepted by the IRS as filed or has been selected for examination. The IRS no longer automatically issues a closing letter; instead, an executor may request one six months after filing the return via telephone or fax.

Alternatively, an executor may request an account transcript in lieu of a closing letter, again at least six months after filing the return. The account transcript reflects transactions, including the acceptance of the Form 706 and completion of an examination. You must first register with the e-Services Transcript Delivery Service (TDS) and have a Form 2848 or Form 8821 for the estate already on file.

ABOUT THE AUTHOR:
Christopher C. Weeg, J.D., LL.M, CPA, is an associate at Meadows, Collier, Reed, Cousins, Crouch & Ungerman, L.L.P. With a focus on tax and estate planning, his law practice includes drafting wills and trusts; advising on income, gift, estate and GST tax issues; forming business and nonprofit entities; and probating estates. Contact him at cweeg@meadowscollier.com.

SOURCES

[1]Texas Estates Code § 22.012.
[2]Texas Family Code § 3.002.
[3]Texas Estates Code § 360.253.
[4]IRC § 641(b).
[5]Treas. Reg. § 1.6012-3(b)(1).
[6]Treas. Reg. § 1.443-1(a)(2).
[7]Treas. Reg. § 1.451-1(b)(1).
[8]IRC § 691(a)(1).
[9]IRC § 6013(c).
[10]IRC § 676(a).
[11]A "qualified revocable trust" means a trust treated as a decedent's grantor trust under IRC § 676. IRC § 645(b)(1).
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[13]IRC § 645(c).
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[37]IRC § 743(b).
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[39]IRC § 6018(a)(1).
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[43]Treas. Reg. § 20.2010-2(a)(7)(ii)(A).
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[45]IRC § 6035(a)(1).
[46]Prop. Treas. Reg. § 1.6035-1(h); IRS Form 8971 Instructions.
[47]Frequently Asked Questions on Estate Taxes, IRS website, https://www.irs.gov/businesses/small-businesses-self-employed/frequently-asked-questions-on-estate-taxes#1
[48]Transcripts in Lieu of Estate Tax Closing Letters, IRS website, https://www.irs.gov/businesses/small-businesses-self-employed/transcripts-in-lieu-of-estate-tax-closing-letters


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Notice of Midyear Board of Directors and Members Meeting

January 24-25, 2020

Join us in Houston for the Midyear Board of Directors and Members Meeting on January 24-25, 2020, at the Omni Houston Hotel. Don't miss this opportunity to connect with colleagues, meet new contacts, have important discussions with TXCPA leaders and influence the future of your professional community.

We'll be featuring returning special guest John Garrett, a stand-up comedian, widely traveled speaker and former practicing CPA. Visit **http://bit.ly/MYB2020** or call **800-428-0272** (option 1) to register today!

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FEATURE

FIVE TIPS FOR IMPROVING PERSONAL PRIVACY

By Thomas G. Stephens, Jr., CPA, CITP, CGMA

Personal privacy is a hot topic in various circles today. Many individuals are becoming increasingly outraged when they learn how much information has been collected about them and how it is being used. Further, most are startled to find out the sheer volume of information that has been collected about them and may be available for sale in various online marketplaces.

If you are concerned about personal privacy and want to get back in control of your own information, following are five easy-to-implement ideas that can help you reach your goal.

Carefully Consider Your Choice of Browsers and Browser Settings

From a privacy perspective, your choice of a web browser matters and the settings you establish within the browser matter too. Some of the more popular browsers today are "advertiser-friendly" and potentially share data with advertisers that you may not wish to have shared.

For example, by many estimates, Google's Chrome browser is the most commonly used browser today, with approximately 80% market share. Yet Chrome scores poorly in many privacy categories, because of issues such as automatically signing you in to the browser (so it can track your activities) and tracking your location. Two lesser-known browsers – Mozilla Firefox and Tor Browser – score much higher in most privacy categories.

In addition to the browser you use, carefully consider the various privacy settings available in the browser. Many browsers, for example, provide controls that allow you to disable pop-up ads, browse in a "private" mode and block cookies, among other options. You should learn what settings you can adjust in your browser and make the necessary adjustments so that you can control your personal privacy to a degree at which you are comfortable.

Utilize a Virtual Private Network

Those who are truly concerned about personal privacy should always utilize a virtual private network (VPN) and connect through the VPN to the Internet. A VPN provides a secure, encrypted tunnel between your computer and the otherwise unencrypted Internet.

By connecting through a VPN, you can browse the Internet in virtual anonymity so that not even your Internet Service Provider will know where you have visited or what you have done there. Note, however, that if you have signed into a browser or have logged into an account at an online merchant, you can be tracked at that level, even if you are using a VPN.

Many good choices exist today for personal VPN solutions, including Nord VPN, CyberGhost, and Private Internet Access. Most personal VPNs cost less than $4 per month.

Monitor Your Accounts, Including Google and Amazon

As you are no doubt aware, many companies track what you do while you are browsing the Internet or even a particular site. Pay attention to each web site's privacy policy and learn what information these companies are collecting, how they are using it, and whether they sell or share information collected about you with third parties.

Pay attention to each web site's privacy policy and learn what information these companies are collecting, how they are using it, and whether they sell or share information collected about you with third parties.

Additionally, most companies allow you to view and self-manage the information being collected about you. To illustrate, if you are concerned about Amazon's personalized advertisements, you can manage those preferences as they relate to you. Likewise, if you want to see what your Alexa-powered devices have on file about you, you can access Amazon's Alexa privacy page and then choose Review Voice History. Similarly, you can see everything that Google has on file about you by downloading that information. However, take notice that downloading the information does not delete it; if you want to delete it, Google has separate processes for that.

Flush Cookies from Your Computer

Cookies are small files that are often stored on your computer when you browse the Internet. Companies place cookies on your computer so that they can track items, such as what sites you visit and what you look at on each site. They also use cookies to memorize and automate logins to specific sites.

Obviously, cookies can collect – and report – a tremendous amount of information about you. If that makes you nervous, you can delete cookies from your computer and you can also block new cookies from being stored. Although the processes for both these tasks are quite simple, they do vary based on the browser you may be using. Therefore, visit www.allaboutcookies.com to learn more about cookies, how you can delete them and how you can manage them. At this site, you'll find browser-specific instructions for dealing with cookies.

Inspect and Cleanse Your Public Profiles

Finally, you should understand that many companies are building massive databases that collect publicly available information about you from sources such as birth records, real estate transactions, marriage licenses, divorce filings and court records. Examples of some of the companies that are collecting this information and creating profiles about you include Radaris, USA People Search, and PrivateEye.com.

The challenge is that when attempting to synthesize information from multiple data sources to create a profile about a given individual, mistakes can sometimes be made, resulting in an inaccurate profile about that individual. Further, many individuals are uncomfortable with the volume of information about them being available for sale to virtually anyone who wants to buy it.

In January 2019, Lifewire published an outstanding article on this topic titled "How to Remove Your Personal Information From the Internet." In this article, the author provides detailed, step-by-step instructions on how you can opt out of many of these sites, making it more difficult for others to gain access to this data. To learn more, go to their website at www.lifewire.com.

Protecting Your Personal Information

Our increasingly connected lifestyles mean that we potentially expose more of our personal information every day to the point that our personal privacy may be compromised. Unplugging our devices and never plugging them back in is not a viable option for protecting personal privacy and, fortunately, that does not have to be done. Instead, by taking the five steps outlined above, you can get back in control of your personal information.

However, remember that this will not be a one-time project. You'll need to commit to an ongoing process that protects your personal privacy every day.

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SUSTAINABILITY? IN THE OIL AND GAS INDUSTRY? ABSOLUTELY.

By Melanie Millar, Ph.D., CPA (VA, NC); Laurie Burney, Ph.D., CPA (TN-inactive), CMA, CSCA; and Ky Mahler

Sustainability. Clean water. Workforce protection. Social investment.

Are these words that have a positive association with the oil and gas industry? If not, perhaps the connection between the two should be given more thought.

Did you know that:

- *CR Magazine* ranked ConocoPhillips (#55) in its 100 Best Corporate Citizens listing in 2019?
- ExxonMobil was listed as one of 10 of the largest U.S. companies that gave the most to charity in 2017?
- Valero has been included in Points of Light's *The Civic* 50 every year since 2014 for its community involvement?
- Phillips 66 was recognized as the top U.S. company for corporate social responsibility in a Universum 2013 survey?

Corporate social responsibility (CSR) is a hot topic in the business world. Notably, in August 2019, the Business Roundtable released a "Statement on the Purpose of a Corporation," which was signed by almost 200 corporate CEOs, including those representing ConocoPhillips, ExxonMobil and Phillips 66. While this statement recognizes the responsibility to grow shareholder wealth, it emphasizes that the purpose of a company encompasses a larger group of stakeholders. This broader purpose includes the statement, "We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses."

In this atmosphere, demand from stakeholders is causing more and more companies to disclose their CSR policies and activities. CSR is often used synonymously with the term corporate sustainability and it invokes the notion that businesses are accountable for more than just their current-year profits. In addition to meeting the needs of their current stakeholders, the philosophy of CSR expects companies to consider the needs of future stakeholders. Traditionally, this perspective has focused mainly on the environmental impacts of business. However, the social, economic and governance aspects of CSR have been gaining prominence in recent years. As shareholder and stakeholder concern with sustainability issues ratchets up, the pressure for companies to produce high quality disclosures on those issues increases.

It's no surprise that CSR reporting has a strong presence in Texas. As of 2014, eight of the top 10 largest companies (by revenue) headquartered in Texas are in oil and gas industries. Companies in these industries have a long history with sustainability issues related to the environment—and possibly other areas of CSR—arising from concerns of their stakeholders. Rather than being old news for oil and gas companies, however, CSR reporting is becoming even more important. In May 2017, ExxonMobil's shareholders overruled management and passed a resolution demanding that ExxonMobil disclose the effects on its business of the global effort to keep climate change less than two degrees centigrade.

CSR information is often disclosed separately from the annual financial reports in a stand-alone CSR report. Despite, or perhaps because of, the existence of several sets of voluntary reporting guidelines, such as those promulgated by the Global Reporting Initiative, the format and content of these reports vary widely. Even the title of these reports isn't standardized. Many companies apply some variation of the phrase "corporate social responsibility" or the term "sustainability." Examples include Valero's "Stewardship and Responsibility Report," NIKE's "Impact Report," and Apple's "Environmental Responsibility Progress Report." Many of these large companies, like NIKE and Apple, also provide multiple reports and richer information on their websites. Yet, as expressed in the following quote, "What's in a name?"

... Whatever name they go by, corporate social responsibility reports are attempting to serve one essential purpose: they portray the relationship between a corporation and society. They seek to improve communications between the corporate world and the broader society within which companies report. ...

Given the diversity in CSR reporting practices, managers can have a difficult job deciding what types of information to include in these reports and how to format them. Similarly, stakeholders may have a difficult time interpreting them and determining their quality. To help address these challenges, Boston College's Institute for Responsible Investing (IRI) published a guide on how to read a CSR report. In particular, it includes nine questions that stakeholders can use to identify whether a CSR report is thorough and high quality.

Although intended for the readers of these reports, this

guide – and the nine questions – can also be used to improve CSR reports by the companies that provide them. In this article, we apply these questions to the 2017 CSR report of ExxonMobil, and the 2018 CSR reports of Phillips 66, Valero and ConocoPhillips, as these are the four largest oil and gas companies in Texas by revenue and are in the top 10 public companies in Texas overall. Through these examples, we illustrate how managers can address these nine questions and what stakeholders can expect to see when they read CSR reports.

Exhibit 1. Nine Questions About Thorough CSR Reporting – IRI's "How to Read a Corporate Social Responsibility Report"

1. Is this a CSR report or a community affairs report?
2. Does the report provide details on CSR practices, as well as policies?
3. Does the CSR report provide systematic data or just anecdotes?
4. Does the company report data in a comparable format?
5. Does the report present future goals, as well as past actions?
6. Does the report include bad news, as well as good news?
7. Does the report address the company's greatest challenges?
8. Does the company integrate CSR reporting with its traditional business strategy and its financial reporting?
9. How can readers look beyond a CSR report?

#1. "Is this a CSR report or a community affairs report?"
Although the four reports vary in length, format and content, ranging from 35 pages (ExxonMobil) to 208 pages (ConocoPhillips) of highlights, graphics and case studies

that refer readers to the company website for more information, all of them start with a letter from the company's chairman. These letters highlight the companies' particular CSR accomplishments and clearly address IRI's first question. A community affairs report is narrower in scope than a CSR report.

Whereas a CSR report addresses issues related to the company's environmental impact, its effects on society and its corporate governance structure, "community affairs" reports narrow their disclosures to information about the company's involvement in the local community, for example through employee volunteer programs or donations to local charities.

All four of the chairman letters make it clear that these reports are broader in scope than community affairs reports. The chairmen discuss company achievements and goals in domains like energy efficiency and worker safety, in addition to local community contribution. By including content on these other topics, these companies elevated their reports from specific community affairs reports to the broader CSR reports.

#2. "Does the report provide details on CSR practices, as well as policies?"

The second question relates to whether the company describes its specific CSR activities in addition to its high-level objectives. In its "Ethics and Business Conduct" section, for example, Phillips 66 describes its philosophy of "always doing the right thing" (p. 12) and its broad scope covering "topics including, but not limited to, human rights, conflicts of interest, discrimination, harassment, confidentiality, anti-bribery, anti-boycott, employee grievances, insider trading, competition and fair dealing" (p. 11). These high-level policy statements, moreover, are supported by links to the complete ethics codes that employees adhere to. The statement also emphasizes the importance to its ethical operation of Phillips 66's whistleblower hotlines, with disclosures, including an overall hotline number and community engagement numbers for each refinery location (excerpted in Exhibit 2).

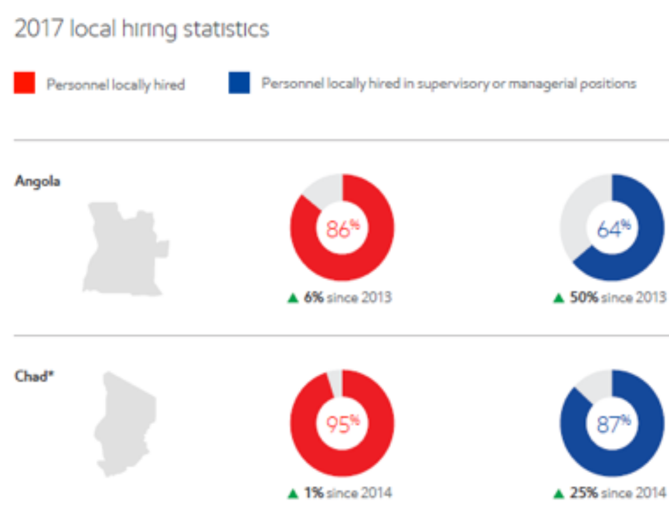
Exhibit 2. Phillips 66 Community Engagement Phone Number (excerpt) (Page 51)

The specificity and detail of this disclosure helps stakeholders better understand the actions that Phillips 66 undertakes in accordance with its goal of "always doing the right thing."

#3. "Does the CSR report provide systematic data or just anecdotes?"

The third question builds on the details demanded by the second question and asks whether the data supporting these specific, concrete examples are compiled into meaningful quantitative summary measures. Although anecdotes of CSR activities are helpful, systematic data provide a quantitative picture of company CSR performance. For example, instead of just saying that it wants its "workforce [to remain] culturally diverse and representative of the countries where we operate" (p. 27), ExxonMobil provides a quantitative measure on its local hiring, which helps visually display for stakeholders the importance of this initiative.

Exhibit 3. ExxonMobil Local Hiring Disclosure (Excerpt, Page 27)



#4. "Does the company report data in a comparable format?"

This question extends Question 3 by asking whether the systematic data is presented in such a way as to allow stakeholders to understand trends in CSR performance. If systematic data are presented in a similar format, stakeholders can compare CSR performance among companies or observe improvements in CSR performance within the same company over time. All four companies included graphs in their reports to show how their data changed from year to year. For example, Valero not only reports its own results over time, but includes industry-level comparisons.

Comparing across companies is trickier, since companies may choose to disclose different types of measures from one another. Sometimes, though, data across companies may be compared, but readers should pay close attention to the units of measure and the scale of the y-axis.

Additionally, ExxonMobil, Phillips 66 and ConocoPhillips present tables of CSR performance target data within their reports. These tables improve comparability across companies for key metrics related to workforce diversity, water usage and greenhouse gas emissions, among others. As with graphical comparisons, however, readers must pay attention to the units of measure for each metric for each company to ensure a fair comparison.

#5. "Does the report present future goals, as well as past actions?"

The fifth question builds on this notion of exploring time trends within a company. It could even be considered a companion to Question #2 about whether the company reports details of its CSR practices in addition to discussion of CSR policy. Question #5 asks for details, not just of current CSR practices, but practices in prior years and practices that the company intends to continue or begin in the future.

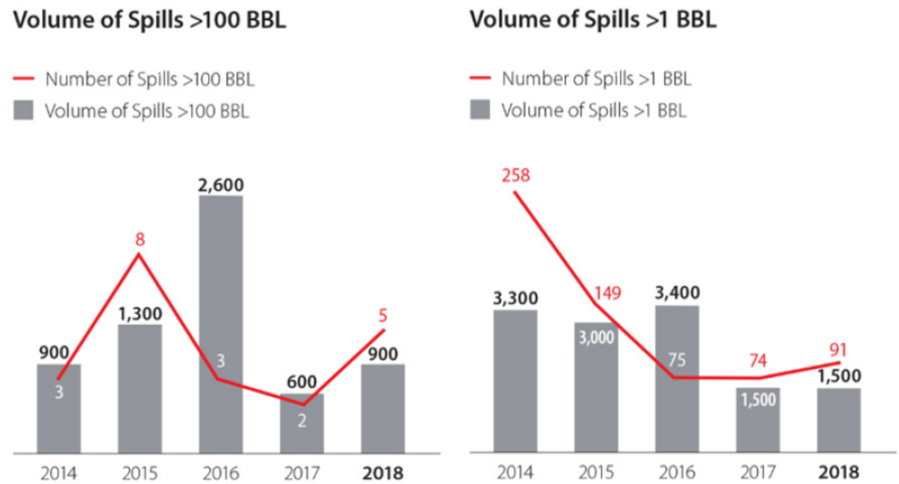
One interpretation of this question could be that it asks for the details of the past, current and future practices that led to the data on graphs. Ideally, these disclosures could provide a detailed description of the evolution of the company's CSR activities through time.

#6. "Does the report include bad news, as well as good news?"

This question represents an opportunity for the reporting company to build credibility with its stakeholders. Companies are often accused of using CSR reports to "greenwash" their otherwise unscrupulous activities. By choosing to be transparent and disclose bad or unfavorable information, a company could build trust and credibility with its stakeholders.

When reading a CSR report from an oil and gas company, stakeholders are likely interested in learning the bad news of that company's oil ("hydrocarbon") spills.

Exhibit 4. ConocoPhillips Volume of Spills Disclosure (Page 157)



ConocoPhillips discloses the number of its spills, as well as the volume in barrels of those spills in an easy-to-read graph (see Exhibit 4). It even presents two graphs. One graph depicts the total number of spills that exceeded even one barrel. The other graph reports only the number of spills (and total barrels spilled) larger than 100 barrels. The supporting text of these graphs goes on to explain that any spills larger than 100 barrels (five during 2018) are immediately reported to management, which triggers extensive investigation and corrective action. ConocoPhillips also states that "[in] 2018, we achieved the lowest, net-after-recovery hydrocarbons spilled on record, despite an increase in the number of events" (p. 157).

#7. "Does the report address the company's greatest challenges?"

This question goes to the relevance of the report and can be seen as an elaboration on the first question, which asked whether the report was a CSR report or the more specific community affairs report. Both questions address the scope of the CSR report and the seventh asks whether the CSR report helps stakeholders evaluate the aspects of the company they most care to assess.

For these four oil and gas companies, for example, stakeholders likely would not consider the CSR reports to be complete unless environmental issues were discussed. The entire industry is facing a growing demand from investors seeking specific, detailed disclosure on climate change effects; thus, these issues are likely deemed among the "greatest challenges" for this industry.

All four companies discuss environmental and safety concerns, and they address the risks that climate change policies pose for their business models, either within

their Sustainability Report (ConocoPhillips) or in a separate report (ExxonMobil, Phillips 66, Valero), demonstrating their consideration of stakeholder concerns.

#8. "Does the company integrate CSR reporting with its traditional business strategy and its financial reporting?"

This question probes the extent companies integrate CSR activities and reporting with their core operations. A higher level of integration could indicate greater concern by the company for CSR issues, because that company has incorporated CSR into day-to-day activities. Integrating CSR reporting with financial reporting is more common abroad than among U.S. companies. It is unsurprising, then, that it would be the exception rather than the rule for these four companies to connect their financial and CSR performance.

Predictably, all four company web pages separate the concepts of "Sustainability" or "Corporate Responsibility" and "Investor Relations," though ConocoPhillips lists its sustainability resources prominently on its investor page. And, while Phillips 66 and Valero provide some financial and stock performance summary figures, financial information in these sustainability reports is predominantly restricted to the CSR domain (e.g., disclosing the amount spent on asset maintenance to prevent spills).

Similarly, discussion of CSR in the annual financial reports is sparse. Neither ExxonMobil nor Valero mention it at all, and Phillips 66 mentions sustainability as part of its technology initiative in its Management Discussion and Analysis (MD&A). ConocoPhillips takes it a step further and discusses its commitment to sustainability as a key to the company's continued success in the "Business Operations" section of its 2018 MD&A. So, while these companies elaborate on how CSR fits into their business strategies in their CSR reports, CSR and financial information is still disclosed separately.

#9. "How can readers look beyond a CSR report?"

The original intent of this question was to help readers seek corroboration of the report's assertions from third party sources, such as nonprofit organizations or the press. From the perspective of the report's preparer, however, this question can be seen as a way to think about what additional resources can be provided to stakeholders and the readers of the CSR report, as well as how the provided information could be made more credible.

As for additional resources, a high-quality CSR section of the company website can be a great way to provide further information about policies or activities that are discussed at a more general level in the CSR report itself. Both ExxonMobil and ConocoPhillips include multiple

With most of the major companies in Texas being energy related, a good CSR report has become the medium that companies like ExxonMobil, ConocoPhillips, Phillips 66 and Valero can use to show their stakeholders the positive and negative impacts their companies have on society.

links to different portions of their CSR websites in their reports. ConocoPhillips even refers readers to its website in the very first page of its report, the letter to stakeholders from the chairman. To further engage stakeholders, this letter closes with an invitation for stakeholder participation and a link to the Sustainability Development Team's email address to facilitate communication.

To increase the credibility of their CSR disclosures, many companies are now acquiring some form of assurance service for their CSR reports. Sometimes, this assurance service is a full audit performed by a traditional auditing firm and other times, it is a set of specific agreed-upon procedures over only the most critical disclosures.

ConocoPhillips describes its CSR report assurance practices, including voluntary verification by third parties, at the end of its report. ExxonMobil took a different approach. For the past 10 years, it has solicited feedback on its CSR report from an External Sustainability Advisory Board. This board is comprised of experts representing academic, non-governmental organization and government backgrounds, who volunteer in exchange for donations to each member's selected nonprofit organizations.

Honors from, and memberships in, outside organizations, examples of which are mentioned earlier in this article, could also be useful signals to show stakeholders how seriously a company takes CSR. Valero and ConocoPhillips actually dedicate the last pages of their CSR reports to summarizing their awards and memberships as a way to highlight the importance of sustainability for these companies.

Impact on the Environment and Communities

With most of the major companies in Texas being energy related, a good CSR report has become the medium that companies like ExxonMobil, ConocoPhillips, Phillips 66 and Valero can use to show their stakeholders the positive and negative impacts their companies have on society. It is more than just a way to satisfy questioning

shareholders or analysts; good CSR reporting can hold companies accountable for their actions and spur them to better themselves and their industry.

Utilizing various reporting guidelines and frameworks, such as the Global Reporting Initiative and the Boston College Institute for Responsible Investing's nine questions, companies can understand what needs to be included in a CSR report.

This guidance can help them disclose their trends in a format comparable to competitors and industry standards, enabling stakeholders to view and evaluate a company's performance in metrics other than finances. As consumers and shareholders continue to focus on the impact corporations have on the environment and communities, corporate social responsibility will, by necessity, grow as a focus for companies, especially in the oil and gas industry.

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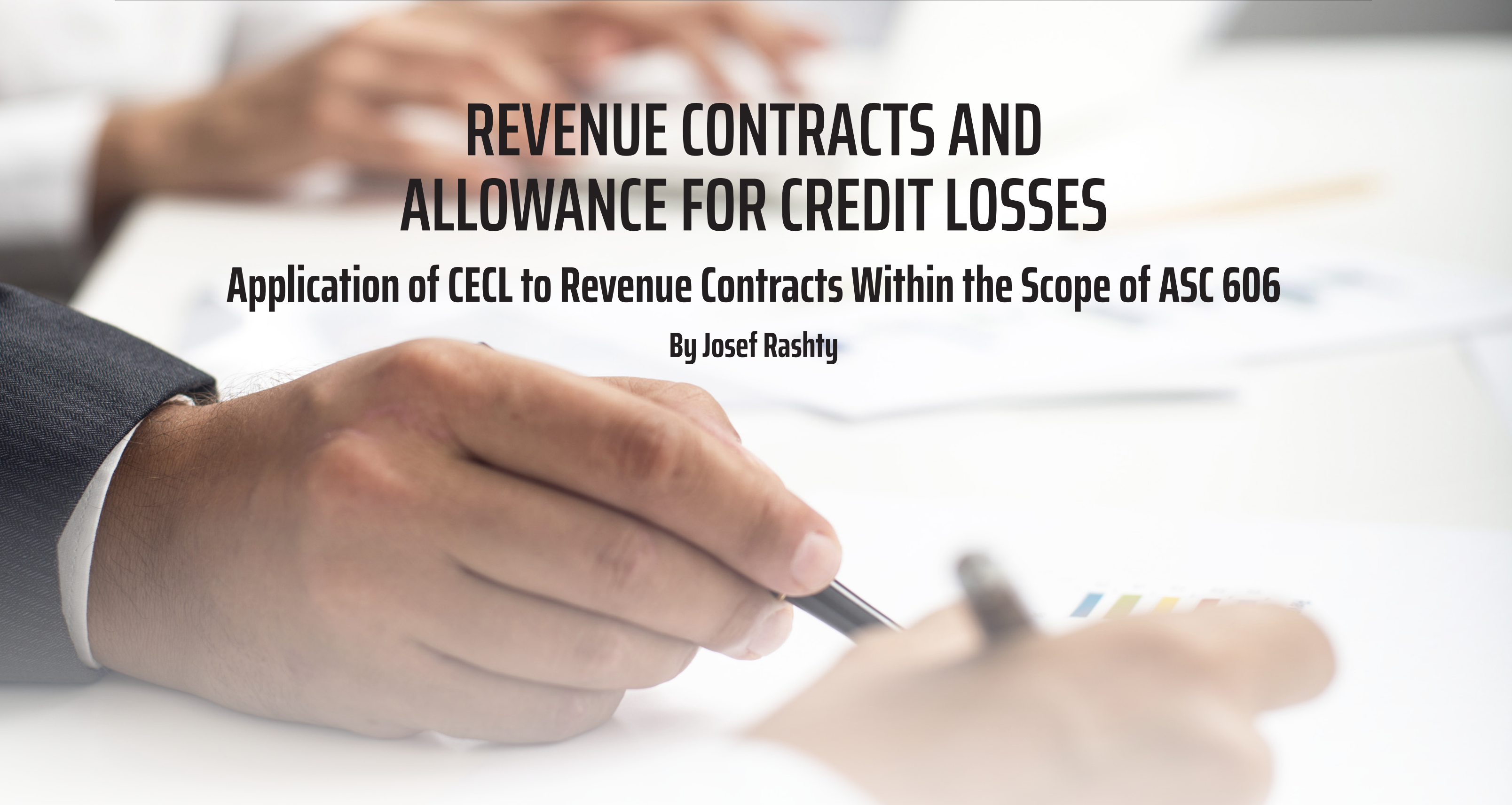

REVENUE CONTRACTS AND ALLOWANCE FOR CREDIT LOSSES

Application of CECL to Revenue Contracts Within the Scope of ASC 606

By Josef Rashty

CURRICULUM: Accounting and Auditing

LEVEL: Basic

DESIGNED FOR: Public practice and business and industry

OBJECTIVES: To provide a fundamental understanding of estimating credit losses for revenue contracts

KEY TOPICS: Current expected credit loss (CECL), revenue contracts, accounts receivable and contract assets

PREREQUISITES: None

ADVANCED PREPARATION: None

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*, which amends the earlier Board's guidance on the impairment of financial instruments. ASC 326 replaces the legacy GAAP's "incurred loss" model with the "current expected credit loss" (CECL) impairment model. The latter requires companies to consider a broader range of information to estimate expected losses over the lifetime of their financial assets. This may create challenges for some companies, since they need to gather and analyze new information to estimate, for example, their expected losses over the life of their accounts receivable.

The new guidance affects not only banks and financial institutions, but also all other industries and is applicable to a wide variety of financial assets, including accounts receivable and contract assets. This article focuses on the impact of CECL and the recently issued ASU 2019-04 on accounts receivable and contract assets from sale of goods and services to customers within the scope ASC 606, *Revenue from Contracts with Customers*. The article explicates some of the intricacies of the new guidance and argues that credit losses' estimates have become more judgmental and prophetic under the new guidance.

Effective Date

Public business entities (PBEs) that are SEC filers adopt this guidance for interim and annual periods in fiscal years beginning after Dec. 15, 2019. The PBEs that are not SEC filers adopt this guidance

The goal of this guidance is to rely on management judgment to improve financial reporting and presentations of companies.

for interim and annual periods in fiscal years beginning after Dec. 15, 2020. All other entities adopt this guidance in fiscal years beginning after Dec. 15, 2021. FASB permits early adoption for fiscal years beginning after Dec. 15, 2018 (ASC 326-10-65-1).

In response to feedback from stakeholders, FASB has recently proposed the deferral of the effective date of this standard for certain companies. As of the date of this publication, FASB has not issued its final standard yet.

Scope of CECL

This guidance primary affects banks and financial institutions; however, other entities that perform any lending activities or invest in any debt securities may also be affected. Furthermore, this guidance impacts entities that have trade receivable (that result from revenue transactions within the scope of ASC 606), reinsurance recoverable and loan to equity method investees. Topic 326 has two different subtopics: credit losses for financial assets measured at amortized cost (ASC 326-20) and credit losses for available-for-sale securities (AFS) (ASC 326-30). The former subtopic is the focus of this article.

ASC 326-20 applies to financial assets measured at amortized cost (e.g., accounts receivable and contract assets that result from revenue transactions), net investment leases, and off-balance sheet credit exposures not accounted for as insurance. ASC 326 provides companies significant flexibility in how to estimate their credit losses for the financial assets that are within its scope. The goal of this guidance is to rely on management judgment to improve financial reporting and presentations of companies.

CECL requires recognition of up-front losses upon initial recognition of contract assets and trade accounts receivable and revise them as needed in the subsequent periods. However, CECL does not provide prescriptive guidance on how to develop an estimate for credit losses; therefore, management makes the decision to select a methodology in implementing the CECL model. Management needs to document its rationale (including commentary on alternatives it considered and rejected) for its selection.

Contracts with Customers

Topic 606 initially stated that an entity assesses its accounts receivable and contract assets for impairment under Topic 310; however, the amended guidance requires that companies estimate their credit losses for both accounts receivable and contract assets under Subtopic 326-20:

- Accounts receivable are unconditional rights to consideration – the payment becomes due only after the passage of time (ASC 606-10-45-4).
- Contract assets, on the other hand, are conditional rights to consideration. In this scenario, the company transfers the agreed upon goods and services to customers; however, the right is conditional on something other than the passage of time (ASC 606-10-45-3). For example, the contract may have the provision for a customer to evaluate the delivered goods and services prior to final commitment for payment. A company that has contract asset balances is more exposed to expected credit losses than a company that has only short-term trade receivables.

If the duration of accounts receivable and contract assets is relatively short, switching to new guidance from an incurred loss model to a lifetime expected loss model may not be that complicated or have a material impact, and companies may continue to use some of the models that they currently use to estimate the allowance for bad debt accounts to estimate credit losses under ASC 326-20.

CECL Valuation Allowance

CECL requires companies to create a valuation allowance account, which is a contra account for the amortized cost basis of the financial assets (ASC 326-20-30-1). This is similar to legacy GAAP that requires asset valuation allowances for losses such as those on accounts receivable and investments be deducted from the assets or groups of assets to which the allowances relate (ASC 210-10-45-13).

What is different is that CECL allowance represents the portion of the financial assets' balance that the company does not expect to collect over its future contractual life, based not only on historical events but also a reasonable forecast on current and future economic conditions. The objective is to recognize an allowance for expected credit losses such that companies reflect the net amount of financial assets that they expect to collect in their financial statements accurately. Furthermore, at each reporting date, companies need to evaluate and adjust this valuation account (ASC 326-10-35-1).

CECL vs. Legacy GAAP

ASC 326, similar to legacy GAAP, permits application of a variety of methods for calculation of expected credit losses, such as discounted cash flow method or any other method (ASC 326-20-30-3).

ASC 326, unlike the legacy GAAP, requires companies to consider lifetime future credit losses that may incur even if the risk of loss is remote. The guidance specifically requires that companies cannot rely solely on past events to estimate expected credit losses since historical experiences may not fully reflect the future expectations (ASC 326-29-55-4). As a result, companies may recognize credit losses earlier under CECL and experience more volatility in credit loss expenses. Furthermore, they may need to implement additional processes and controls to implement to the new guidance.

The legacy GAAP permits, but does not require, pooling of assets as unit of measurement, whereas Subtopic 326-20 requires application of pooling method (ASC 326-20-30-2) when assets share common risk characteristics (ASC 326-20-55-5). This requires management judgment to determine whether assets grouped in a pool continue to share similar risk characteristics at each measurement date. Furthermore, the entity shall evaluate whether such a financial asset in a pool continues to exhibit similar risk characteristics in subsequent periods (ASC 326-2-35-2).

ASC 326, unlike the legacy GAAP, requires companies to measure expected credit losses over the contractual life of assets (ASC 326-20-30-6). This provision may be challenging for some companies if their accounts receivable do not have specific payment terms or those for which customers often make payments subsequent to due dates.

Estimating credit losses under ASC 326 is highly judgmental, much more so than estimating bad debt valuation allowances under the legacy GAAP system when an entity relies solely on past events to estimate expected credit losses (ASC 326-2-30-9). The new guidance, mainly due to its scope and futuristic view, makes the estimate subjective. Furthermore, ASC 326-20 does not prescribe a specific method for estimating credit losses that makes the guidance even more judgmental.

Internal Controls

ASC 326 requires companies to evaluate their system of internal controls for estimating their credit losses. Companies should develop appropriate internal controls, from modeling to estimating credit losses and external reporting. Estimating credit losses is often a team effort; therefore, management must ensure that adequate segregation of duties exists, and a process of review and approval is in place. Management also needs to put adequate controls in place over the data that it has used in formulating its assumption.

A weakness in the system of internal controls for estimating credit losses may result in deficiencies or even material weakness. The standard for measuring whether an internal control deficiency is a material weakness for financial reporting purposes is that a deficiency or combination of deficiencies could result in a material misstatement of a company's financial statements.

Disclosures

Many public companies disclose their policies for estimating their bad debt allowance under existing guidance in their significant and critical accounting policies in their Forms 10-Ks and 10-Qs. However, after adoption of ASC 326, companies need to expand their disclosures to include the additional following information:

- Methodology that they have used to estimate the expected credit losses (e.g., a discounted cash flow methodology).
- Process of estimating the historical and expected future credit losses.
- Process of developing forecasts for future economic conditions.
- PBEs must present the amortized cost basis of their accounts receivable (except those due in one year or less) by year of origination (vintage year) (ASC 326-20-50-6 and ASC 326-20-50-9).

Latest Development

In April 2019, FASB issued ASU 2019-04, Codification Improvements to Topic 326, Financial Instruments – Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments (the Amendment). FASB issued this Amendment as part of its ongoing project to improve accounting codification standards. In May 2019, FASB issued ASU 2019-05, Financial Instruments –

Credit Losses (Topic 326). This guidance provides certain optional targeted transition relief for certain financial instruments accounted for under Subtopic 326-20. Companies that have financial instruments measured at amortized cost can elect to irrevocably account for them at fair value according to ASC 825-10. This guidance is not applicable to accounts receivable and contract assets (discussed in this article), since companies often do not use the fair value option to account for such assets.

Summary of ASU 2019-04

The following summarizes the Amendment's key improvements to Subtopic 326-20:

- It permits companies to separately measure an allowance for credit losses of accrued interest receivables from other components of the amortized cost basis and permits companies to make certain accounting policy elections regarding calculation of credit losses for accrued credit receivables.
- It requires that companies take into account contractual extensions and contract's renewal option to determine the contractual term over which they measure their credit losses.
- It requires that companies include recoveries of the amounts that they expect to write off and those that they have previously written off. The following example clarifies this concept.

A company has a bad debt allowance for $1,000 based on legacy GAAP. The allowance includes write off of $200 debt. (The company has provided full provision for the expected write off.) The company historically has recovered approximately 10% of such write offs. However, considering the future economic conditions and other circumstances, the company estimates that recovery from such write offs would be approximately 15%. Therefore, the company estimates that amount of recovery for write offs is approximately $30 ($200 times 15%) and as a result, allowance for credit losses would be $970 ($1,000 less $30).

Effective Date of ASU 2019-04

For entities that have not yet adopted ASU 2016-13, the effective dates and transition requirements for this Amendment are the same as the effective dates and transition requirements for ASU 2016-13.

For entities that have already adopted ASU 2016-13, this Amendment is effective for fiscal years after Dec. 15, 2019, including interim periods within those fiscal years. FASB permits early adoption of this Amendment. Entities should apply this Amendment on a modified-retrospective basis by means of a cumulative-effect adjustment to opening balance of retained earnings.

CONTINUED ON NEXT PAGE

Figure 1. Illustration

Entity A sells a computer and an enterprise license, plus three years maintenance for $1,800. It allocates the contract based on stand-alone price of element of the contract as follows:

Hardware	$1,000
Software	$ 500
Maintenance	$ 300 for three years ($100 per year)

The contract stipulates that the customer is liable for the software only if it is successfully implemented by the end of the first year and customer has accepted its functionality. Entity A estimates the credit losses for customer assets at 10% and for accounts receivable at 1%. Entity A delivers the hardware and software at the beginning of the year and determines that collection is probable.

The journal entries are as follows:

Accounts receivable	$ 1,000	
Contract assets	$ 500	
Revenue for hardware		$ 1,000
Deferred revenue for software		$ 500*

**Entity A does not record the maintenance as deferred revenue since it has not performed the services.*

Credit losses	$ 60	
Allowance		$ 60*

**($1,000 x 1% plus $500 x 10%)*

A New Framework for Estimating Credit Losses

CECL applies to financial assets measured at amortized cost, including loans, held-to-maturity debt securities, net investment in leases, and reinsurance and trade receivables, as well as certain off-balance sheet credit exposures, such as loan commitments and available-for-sale debt securities. CECL instigates a new framework for estimating credit losses that goes above and beyond traditional historical data analysis and relies on prophetic estimates in addition to past loss experiences and current economic situations. This guidance is more than a continuum of erstwhile standards and it heralds a new era for FASB where it may very well expand the CECL concept to other loss estimate provisions.

The focus of this article was to provide guidance for estimating credit losses for Topic 606 financial assets. The author conjectures that CECL may not have a drastic impact on calculation of credit losses for accounts receivable and contract assets (within the scope of Topic 606) that have relatively short life spans. Furthermore, some companies may continue using some of the techniques that they currently use for estimating their bad debt allowance accounts.

Nevertheless, this is not a trifling guidance and companies need to make an assessment to determine the impact of this standard and its Amendment (particularly the recovery of write offs) on their accounts receivable and contract assets that meet the criteria of Subtopic 326-20. In some instances, adoption of this guidance may cause companies to post higher expenses in the earlier periods and as a result, experience higher volatility on their earnings.

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12/17	Section 199A: Applications and Challenges in 2019	Austin
12/17	Four Tiers of Loss Limitations: A Guide to the New Rules for Pass-Through Entities	Austin
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1/15	Individual Income Tax Update	Houston
1/15	Tax Reform: Tax Planning for Pass-Through Entities	Dallas
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CPE ARTICLE: REVENUE CONTRACTS AND ALLOWANCE FOR CREDIT LOSSES

(Application of CECL to Revenue Contracts Within the Scope of ASC 606)

By Josef Rashty

Today's CPA offers the self-study exam for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article. If you score 70 or better, you will receive a certificate verifying you have earned one hour of CPE credit – granted as of the date the test arrived in the TXCPA office – in accordance with the rules of the Texas State Board of Public Accountancy (TSBPA). If you score below 70, you will receive a letter with your grade.

1. CECL is a (an):
A. Impairment model for financial assets.
B. Impairment model for intangible assets.
C. Impairment model for goodwill.
D. None of the above.

2. CECL applies only to:
A. Banks and financial institutions.
B. Retail industry.
C. Manufacturing industry.
D. All industries.

3. PBEs that are SEC filers adopt CECL for interim and annual periods in their fiscal years beginning after __________.
A. December 15, 2020.
B. December 15, 2021.
C. December 15, 2019.
D. June 15, 2019.

4. ________ applies to financial assets measured at amortized cost.
A. ASC 326-30.
B. ASC 326-20.
C. ASC 606.
D. All of the above.

5. ASC 606 amended guidance requires that companies estimate credit losses for both accounts receivable and contract assets under ____________:
A. ASC 605.
B. ASC 310.
C. ASC 326-20.
D. None of the above.

6. Subtopic 326-20:
A. Does not permit use of pooling method.
B. Requires use of pooling method.
C. Permits use of pooling method under some circumstances.
D. Permits use of pooling method in certain industries.

7. Estimating credit losses under ASC 326 is:
A. Not judgmental.
B. Relatively judgmental.
C. Sometimes judgmental.
D. Highly judgmental.

8. Which of the following statements is correct?
A. CECL is not within the scope of internal controls.
B. SOX 404 excludes CECL from its provisions.
C. Companies should develop appropriate internal controls for CECL operations.
D. None of the above.

9. After adoption of ASC 326, companies need to expand their disclosures to include the additional following information:
A. Process of estimating the historical and expected future credit losses.
B. CECL application in similar industries.
C. Cost of CECL implementation.
D. All of the above.

10. ASU 2019-05 ____________________:
A. Changes the scope of CECL.
B. Provides industry expertise guidance for CECL.
C. Provides detailed implementation and disclosure guidance for CECL.
D. Provides certain optional targeted transition relief for certain financial instruments accounted for under Subtopic 326-20.

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$364,000 gross. Hurst CPA firm. 89% tax, 11% accounting services, turn-key practice with experienced staff and primed for new owner and smooth transition. TXN1498

$525,000 gross. Northern Collin Co. CPA firm. 57% tax, 29% bkkpng, 10% payroll, 5% misc., turn-key, cloud-based operation, tenured staff, loyal client base. TXN1508

$367,000 gross. Abilene CPA firm. 65% tax, 28% acctng, 9% payroll, quality clients, knowledgeable staff in place, strong fee structure, turn-key opportunity. TXN1509

$801,000 gross. East Texas (Tyler/Longview) CPA firm. Accntng (32%), tax (47%), audits (10%), misc. (11%), loyal client base, experienced staff and strong fee structure. TXN1510

$514,000 gross. Mansfield CPA firm. Predominantly tax (95%), excellent cash flow of approx. 65%, loyal client base, strong fee structure, turn-key opportunity. TXN1511

$138,000 gross. North Texas CPA audit practice. Specializes in two niche industries, strong fees and excellent cash flow near 50%, highly desirable area, turn-key. TXN1517

$288,000 gross. Texarkana EA firm. Tax prep 73%, accounting 20%, tax planning/rep 7%, strong fees, experienced staff, quality client base, primed for growth. TXN1519

$61,000 gross. The Colony bkkpng firm. Revenues from mthly/qrtly bkkpng and payroll services, quality clients, strong fees and cash flow near 80%, somewhat portable. TXN1520

$641,000 gross. Brazos Valley area CPA firm. Tax 65%, acct/bkkpg 32%, other 3%, excellent fee structure and cash flow, knowledgeable staff in place and seller available to help with transition. TXS1225

$305,000 gross. SE Texas CPA firm. Tax 60%, bkkpg 40%, turn-key practice with staff in place, friendly clients, owner available to assist through tax season. TXS1232

$1,811,000 gross. League City area CPA firm. Tax 53%, bkkpg 31%, consulting 16%, strong fees, sophisticated client base, excellent staff, turn-key practice. TXS1235

$990,000 gross. Kingwood/Humble area CPA firm. Tax 62%, bkkpg 29%, consulting 9%, audit 1%, staff in place, prime location, long-term and loyal client base. TXS1239

$770,000 gross. N. Houston area CPA firm. Tax 48%, bkkpg 38%, consulting 14%, trained staff, sophisticated business clientele, turn-key office, prime location. TXS1241

$437,000 gross. SE Houston area CPA firm. Bkkpng 52%, tax 39%, acctng 9%, bilingual staff, diverse client base, turn-key office in prime location. TXS1242

$292,000 gross. Lubbock CPA firm. Acctng 10%, tax 90% (61% ind., 28% bus., 11% other), great cash flow over 73%, consistent annual revenues, seasonal employee. TXW1023

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