

1995

# Omnibus proposal of Professional Ethics Division interpretations and rulings; Exposure draft (American Institute of Certified Public Accountants), 1995, July 19

American Institute of Certified Public Accountants. Professional Ethics Executive Committee

American Institute of Certified Public Accountants. Professional Ethics Division

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# **EXPOSURE DRAFT**

## **OMNIBUS PROPOSAL OF PROFESSIONAL ETHICS DIVISION INTERPRETATIONS AND RULINGS**

PROPOSED REVISION OF DEFINITION UNDER ET SECTION 92: Financial Statements  
 PROPOSED RULING UNDER RULE 203: Applicability of Rule 203 to Members  
Performing Litigation Support Services  PROPOSED RULING UNDER RULE 102:  
Client Advocacy and Expert Witness Services  PROPOSED RULING UNDER RULE  
101: Member's Indemnification of a Client

**JULY 19, 1995**

**Prepared by the AICPA Professional Ethics Executive Committee for comments  
from persons interested in independence, behavioral, and technical standards matters**

**Comments should be received by September 19, 1995, and addressed to  
Herbert A. Finkston, Director, Professional Ethics Division,  
AICPA, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881.**

*This exposure draft has been sent to persons  
who have requested copies.*

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Any individual or organization may obtain one copy of this document without charge until the end of the comment period by writing to the AICPA Order Department, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881.

**AICPA**

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July 19, 1995

This exposure draft contains four proposals for review and comment by the Institute's membership and other interested parties regarding pronouncements to be adopted by the Professional Ethics Executive Committee. The text of and an explanatory preface to each pronouncement are included in this exposure draft.

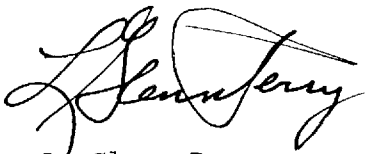
A summary does not accompany this exposure draft because of the diversity of material included. Instead, the type of information a summary would contain is included in the "Explanation" preceding each proposal.

After the exposure period is concluded and the comments have been evaluated by the Professional Ethics Executive Committee, the committee may decide to publish one or more of the proposed pronouncements. Once published, the pronouncements become effective on the last day of the month in which they are published in the *Journal of Accountancy*, except as otherwise stated in the pronouncements.

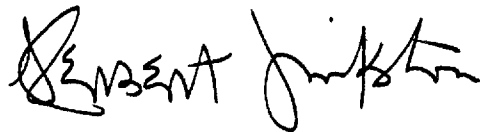
Your comments are an important part of the standard-setting process. Please take this opportunity to comment. Responses should be made under the appropriate heading on the enclosed response form. They must be received at the AICPA by September 19, 1995. All written replies to this exposure draft will become part of the public record of the AICPA and will be available for inspection at the office of the AICPA after October 31, 1995, for a period of one year.

Please send comments to Herbert A. Finkston, Director, AICPA Professional Ethics Division, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881.

Sincerely,



L. Glenn Perry  
Chair  
AICPA Professional Ethics  
Executive Committee



Herbert A. Finkston  
Director  
AICPA Professional  
Ethics Division

# PROPOSED REVISION OF DEFINITION UNDER ET SECTION 92

## *[Explanation]*

The Professional Ethics Executive Committee proposes a change to the Code of Professional Conduct definition of *financial statements*, to reflect current professional literature. It should be noted that this definition is solely for purposes of use in determining compliance with the rules, interpretations, and rulings contained in the Code of Professional Conduct.

## *[Text of Current Definition Under ET Section 92]*

**.04 Financial statements.** Statements and footnotes related thereto that purport to show financial position which relates to a point in time or changes in financial position which relate to a period of time; and statements which use a cash or other incomplete basis of accounting. Balance sheets, statements of income, statements of retained earnings, statements of changes in financial position, and statements of changes in owners' equity are financial statements.

Incidental financial data included in management advisory services reports to support recommendations to a client and tax returns and supporting schedules do not, for this purpose, constitute financial statements; and the statement, affidavit, or signature of preparers required on tax returns neither constitutes an opinion on financial statements nor requires a disclaimer of such opinion.

## *[Text of Proposed Definition Under ET Section 92]*

**.04 Financial statements.** A presentation of historical financial data, including accompanying notes, if any, derived from accounting records and intended to communicate an entity's economic resources and/or obligations at a point in time or the changes therein for a period of time, in accordance with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles.

Incidental financial data to support recommendations to a client or in documents for which the reporting is governed by Statements on Standards for Attestation Engagements and tax returns and supporting schedules do not, for this purpose, constitute financial statements. The statement, affidavit, or signature of preparers required on tax returns neither constitutes an opinion on financial statements, nor requires a disclaimer of such opinion.

## PROPOSED RULING UNDER RULE 203

[*Explanation*]

The Professional Ethics Executive Committee proposes the following ethics ruling to clarify the applicability of Rule 203, *Accounting Principles*, to members performing litigation support services.

[*Text of Proposed Ruling Under Rule 203*]

### **Applicability of Rule 203 to Members Performing Litigation Support Services**

**Question**—Does Rule 203, *Accounting Principles*, apply to members performing litigation support services?

**Answer**—Yes.

## PROPOSED RULING UNDER RULE 102

[*Explanation*]

The Professional Ethics Executive Committee proposes the following ethics ruling to clarify the application of Interpretation 102-6, *Professional Services Involving Client Advocacy*, to expert witness services.

[*Text of Proposed Ruling Under Rule 102*]

### **Client Advocacy and Expert Witness Services**

**Question**—Would the performance of expert witness services be considered as acting as an advocate for a client as discussed in Interpretation 102-6 [ET section 102.07]?

**Answer**—No. A member serving as an expert witness does not serve as an advocate but as someone with specialized knowledge, training, and experience in a particular area who should present positions objectively.

# PROPOSED RULING UNDER RULE 101

*[Explanation]*

The Professional Ethics Executive Committee proposes the following ethics ruling to provide guidance to members who may be requested to sign an agreement indemnifying a client for losses, costs, or damages arising from client acts.

*[Text of Proposed Ruling Under Rule 101]*

## **Member's Indemnification of a Client**

**Question**—As a condition to retaining a member or a member's firm for the performance of a professional service requiring independence, a prospective client requests that the member enter into an agreement providing, among other things, that the client be indemnified for damages, losses, or costs arising from lawsuits, claims, or settlements that relate, directly or indirectly, to **client** acts. Would a member or member's firm entering into such an agreement be independent of the client?

**Answer**—No. Such an agreement would place the member and member's firm in the position of assuming management responsibilities which is prohibited under Interpretation 101-1-B.1 [ET section 101.02].