



CAQ Alert #2007-03 – February 15, 2007

DEAR CENTER MEMBERS

Center for Audit Quality Issues FAQs on Quantifying Financial Statement Misstatements

[Staff Accounting Bulletin No. 108](#) (SAB 108) provides interpretations to address the diversity in practice in quantifying financial statement misstatements and specifically addresses the potential under current practice for the buildup of improper amounts on the balance sheet. SAB 108 also provides examples on the effects of the carryover or reversal of prior year misstatements and how they should be considered in quantifying a current year misstatement. See [Center for Audit Quality's](#) (Center or CAQ) summary of SAB 108 previously reported to you at the following link:

- [CAQ Summary of Staff Accounting Bulletin No. 108 – Quantifying Financial Statement Misstatements](#) (September 2006)

Center for Audit Quality member firms continue to have questions related to the quantification of financial statement misstatements and expressed the need for additional clarification for implementing certain aspects of SAB 108. As a result, the Center has developed the following frequently asked questions (FAQs) which are based on discussions with the SEC staff. To access the complete [Center for Audit Quality SAB 108 FAQs](#), click on the respective link.

Specifically, the five frequently asked questions regarding SAB 108 are as follows:

1. May errors determined to be immaterial under the dual method be included in the cumulative effect adjustment upon adoption of SAB 108?
 - *No, however, a registrant may record all errors (including individually immaterial errors) in the cumulative effect adjustment if the errors are material in the aggregate. [Read More >>](#)*
2. Are the errors that may be included in the SAB 108 cumulative effect adjustment limited to waived audit differences in prior years?
 - *No. There are scenarios in which errors not previously identified as audit differences may be included in the cumulative effect adjustment upon adoption of SAB 108. [Read More >>](#)*
3. How should an error originating in a period prior to adoption of SAB 108 be evaluated if the error is identified subsequent to the adoption of SAB 108?
 - *The answer depends on whether the registrant adopted SAB 108 by recording a cumulative effect adjustment or by correcting prior year financial statements. [Read More >>](#)*
4. If a previously undetected error originating in a year subsequent to adoption of SAB 108 cannot be corrected in the year it is discovered without materially misstating that year's financial statements, and the correction to each previous period would result in immaterial adjustments to those financial statements, can the corrections be made the next time those financial statements are filed?
 - *No, not necessarily. SAB 108 states that "correcting prior year financial statements for immaterial errors would not require previously filed reports to be amended." [Read More >>](#)*
5. If financial statements of previous periods are determined to be immaterially misstated, what disclosures are required in the current year financial statements if they include adjustments to the prior periods to correct the immaterial errors?
 - *The SEC staff has stated that registrants should use judgment in deciding how much detail to provide regarding an immaterial correction of prior period financial statements, but that registrants should ensure that they provide transparent disclosure about the adjustments*

being made. [Read More >>](#)

To access the complete [Center for Audit Quality SAB 108 FAQs](#), click on the respective link.

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