

# GUIDE

APRIL 1, 2017

## Prospective Financial Information

AICPA<sup>®</sup>



# GUIDE

APRIL 1, 2017

## Prospective Financial Information

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# Preface

(Updated as of April 1, 2017)

## About AICPA Guides

This AICPA Guide has been developed under the supervision of the AICPA Auditing Standards Board (ASB) and Accounting and Review Services Committee (ARSC) to assist management in the preparation of financial forecasts and projections and to assist practitioners in performing and reporting on their examination and agreed-upon procedures engagements in accordance with Statements on Standards for Attestation Engagements (SSAEs) and their preparation and compilation engagements in accordance with Statements on Standards for Accounting and Review Services (SSARSs).

This guide is an interpretive publication pursuant to paragraph .A30 of AT-C section 105, *Common Concepts to All Attestation Engagements* (AICPA, *Professional Standards*), and paragraph .06 of AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* (AICPA, *Professional Standards*). Interpretive publications are recommendations on the application of SSAEs and SSARSs in specific circumstances, including engagements for entities in specialized industries. Interpretive publications are issued under the authority of the ASB and ARSC only after all members of the respective committee have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with SSAEs or SSARSs, respectively. The members of the ASB and the ARSC have found the guidance in this guide to be consistent with the existing SSAEs and SSARSs.

In accordance with paragraph .21 of AT-C section 105 and paragraph .17 of AR-C section 60, an accountant should consider interpretive publications applicable to his or her engagement in accordance with SSAEs or SSARS, respectively. If the accountant does not apply the interpretive guidance in an applicable AICPA Guide, the accountant should be prepared to explain how he or she complied with the SSAE or SSARS provisions addressed by such guidance.

AICPA Guides may include certain content presented as "Supplement," "Appendix," or "Exhibit." A supplement is a reproduction, in whole or in part, of authoritative guidance originally issued by a standard setting body (including regulatory bodies) and applicable to entities or engagements within the purview of that standard setter, independent of the authoritative status of the applicable AICPA Guide.

Both appendixes and exhibits are included for informational purposes and have no authoritative status.

## Other Attestation Publications

Any examination or agreed-upon procedures guidance in a guide appendix or chapter appendix in a guide, or in an exhibit, although not authoritative, is considered an *other attestation publication*. In applying such guidance, in accordance with paragraph .22 of AT-C section 105, the accountant should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the engagement. Although the accountant determines the relevance of such guidance, such guidance in a guide appendix or

exhibit has been reviewed by the AICPA Audit and Attest Standards staff and the accountant may presume that it is appropriate.

The ASB is the designated senior committee of the AICPA authorized to speak for the AICPA on all matters related to auditing, attestation, and quality control for nonissuers<sup>1</sup> (that is, those entities not subject to the oversight authority of the PCAOB). Conforming changes made to the attestation guidance contained in this guide are approved by the ASB Chair (or his or her designee) and the Director of the AICPA Audit and Attest Standards Staff. Updates made to the attestation guidance in this guide exceeding that of conforming changes are issued after all ASB members have been provided an opportunity to consider and comment on whether the guide is consistent with the SSAEs.

## Other Preparation, Compilation and Review Publications

Any preparation or compilation guidance in a guide appendix or chapter appendix in a guide, or in an exhibit, although not authoritative, is considered an *other preparation, compilation, and review publication*. In applying such guidance, in accordance with paragraph .18 of AR-C section 60, the accountant should, exercising professional judgment, assess the relevance and appropriateness of such guidance to the circumstances of the engagement. Although the accountant determines the relevance of such guidance, such guidance in a guide appendix or exhibit has been reviewed by the AICPA Audit and Attest Standards staff and the accountant may presume that it is appropriate.

The ARSC is the designated senior committee of the AICPA authorized to speak for the AICPA on all matters related to preparation, compilation, and review engagements. Conforming changes made to the guidance contained in this guide are approved by the ARSC chair (or his or her designee) and the Director of the AICPA Audit and Attest Standards staff. Updates made to the guidance in this guide exceeding that of conforming changes are issued after all ARSC members have been provided an opportunity to consider and comment on whether the guide is consistent with SSARs.

## Purpose and Applicability

This guide applies to prospective financial information. This guide does not discuss the application of GAAP or GAAS. This guide is directed to entities that issue prospective financial information and practitioners who provide services on prospective financial information.

## Recognition

### 2017 Guide Edition

(Updates to this edition exceeded that of conforming changes.)

#### AICPA Senior Committees

#### Auditing Standards Board

(members when this edition was completed)

Mike Santay, *Chair*  
Gerry Boaz

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<sup>1</sup> See the definition of the term *nonissuer* in the AU-C Glossary (AICPA, *Professional Standards*).

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The AICPA also thanks Don Pallais for his invaluable assistance in updating the 2017 edition of the guide.

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## **Guidance Considered in This Edition**

This edition of the guide has been modified by the AICPA staff to include certain changes necessary due to the issuance of authoritative guidance since the guide was originally issued, and other revisions as deemed appropriate. Relevant authoritative guidance issued through November 1, 2016, has been considered

in the development of this edition of the guide. However, this guide does not include all reporting and other requirements applicable to an entity or a particular engagement. This guide is intended to be used in conjunction with all applicable sources of relevant authoritative guidance.

In updating this guide, all guidance issued up to and including the following was considered, but not necessarily incorporated, as determined based on applicability:

- SSAE No. 18, *Attestation Standards: Clarification and Recodification* (AICPA, *Professional Standards*)
- SSARS No. 23, *Omnibus Statement on Standards for Accounting and Review Services—2016* (AICPA, *Professional Standards*)

Users of this guide should consider authoritative guidance issued subsequent to those items listed previously to determine the effect, if any, of such guidance on entities and engagements covered by this guide. In determining the applicability of recently issued guidance, consider the effective date of such guidance.

The changes made to this edition of the guide are identified in appendix B, "Schedule of Changes Made to the Text From the Previous Edition." The changes do not include all those that might be considered necessary if the guide were subjected to a comprehensive review and revision.

## References to AICPA Professional Standards

In citing SSAEs and SSARSs and their related interpretations, references use AT-C and AR-C section numbers, as appropriate, within AICPA *Professional Standards* and not the original statement number.

## Terms Used to Define Professional Requirements in This AICPA Guide

Any requirements described in this guide are normally referenced to the applicable standards or regulations from which they are derived. Generally the terms used in this guide describing the professional requirements of the referenced standard setter (for example, the ASB) are the same as those used in the applicable standards or regulations (for example, *must* or *should*).

Readers should refer to the applicable standards and regulations for more information on the requirements imposed by the use of the various terms used to define professional requirements in the context of the standards and regulations in which they appear.

Certain exceptions apply to these general rules, particularly in those circumstances where the guide describes prevailing or preferred industry practices for the application of a standard or regulation. In these circumstances, the applicable senior committee responsible for reviewing the guide's content believes the guidance contained herein is appropriate for the circumstances.

## Applicability of Quality Control Standards

QC section 10, *A Firm's System of Quality Control* (AICPA, *Professional Standards*), addresses a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice. A system of quality control consists

of policies that a firm establishes and maintains to provide it with reasonable assurance that the firm and its personnel comply with professional standards, as well as applicable legal and regulatory requirements. The policies also provide the firm with reasonable assurance that reports issued by the firm are appropriate in the circumstances.

QC section 10 applies to all CPA firms with respect to engagements in their accounting and auditing practice. In paragraph .06 of QC section 10, an *accounting and auditing practice* is defined as "a practice that performs engagements covered by this section, which are audit, attestation, compilation, review, and any other services for which standards have been promulgated by the ASB or the ARSC under the "General Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.300.001) or the "Compliance With Standards Rule" (AICPA, *Professional Standards*, ET sec. 1.310.001) of the AICPA Code of Professional Conduct. Although standards for other engagements may be promulgated by other AICPA technical committees, engagements performed in accordance with those standards are not encompassed in the definition of an *accounting and auditing practice*.

In addition to the provisions of QC section 10, readers should be aware of other sections within AICPA *Professional Standards* that address quality control considerations, including the following provisions that address engagement level quality control matters for various types of engagements that an accounting and auditing practice might perform:

- AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards* (AICPA, *Professional Standards*)
- AT-C section 105, *Concepts Common to All Attestation Engagements* (AICPA, *Professional Standards*)
- AR-C section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services* (AICPA, *Professional Standards*)

Because of the importance of engagement quality, this guide includes an appendix, *Overview of Statements on Quality Control Standards*. This appendix summarizes key aspects of the quality control standard. This summarization should be read in conjunction with QC section 10, AU-C section 220, AT-C section 105, AR-C section 60, and the quality control standards issued by the PCAOB, as applicable.

## AICPA.org Website

The AICPA encourages you to visit the website at [www.aicpa.org](http://www.aicpa.org), and the Financial Reporting Center (FRC) at [www.aicpa.org/FRC](http://www.aicpa.org/FRC). The FRC supports members in the execution of high-quality financial reporting. Whether you are a financial statement preparer or a member in public practice, this center provides exclusive member-only resources for the entire financial reporting process, and provides timely and relevant news, guidance and examples supporting the financial reporting process. Another important focus of the Financial Reporting Center is keeping those in public practice up to date on issues pertaining to preparation, compilation, review, audit, attestation, assurance and advisory engagements. Certain content on the AICPA's websites referenced in this guide may be restricted to AICPA members only.

## Select Recent Developments Significant to This Guide

### AICPA's Ethics Codification Project

The AICPA's Professional Ethics Executive Committee (PEEC) restructured and codified the AICPA Code of Professional Conduct (code) so that members and other users of the code can apply the rules and reach appropriate conclusions more easily and intuitively. This is referred to as the *AICPA Ethics Codification Project*.

Although PEEC believes it was able to maintain the substance of the existing AICPA ethics standards through this process and limited substantive changes to certain specific areas that were in need of revision, the numeric citations and titles of interpretations have all changed. In addition, the ethics rulings are no longer in a question and answer format but rather, have been drafted as interpretations, incorporated into interpretations as examples, or deleted where deemed appropriate. For example,

- Rule 101, *Independence* (ET sec. 101.01) is referred to as the "Independence Rule" (ET sec. 1.200.001) in the revised code.
- the content from the ethics ruling entitled "Financial Services Company Client has Custody of a Member's Assets" (ET sec. 191.081-.082) is incorporated into the "Brokerage and Other Accounts" interpretation (ET sec. 1.255.020) found under the subtopic "Depository, Brokerage, and Other Accounts" (ET sec. 1.255) of the "Independence" topic (ET sec. 1.200).

The revised code was effective December 15, 2014, and is available at <http://pub.aicpa.org/codeofconduct>. References to the code have been updated in this guide. To assist users in locating in the revised code content from the prior code, PEEC created a mapping document. The mapping document is available in Excel format in appendix D in the revised code.

### Attestation Clarity Project

To address concerns over the clarity, length, and complexity of its standards, the ASB established clarity drafting conventions and undertook a project to redraft all the standards it issues in clarity format. The redrafting of Statements on Standards for Attestation Engagements (SSAEs or attestation standards) in SSAE No. 18 represents the culmination of that process.

The attestation standards are developed and issued in the form of SSAEs and are codified into sections. SSAE No. 18 recodifies the "AT" section numbers designated by SSAE Nos. 10–17 using the identifier "AT-C" to differentiate the sections of the clarified attestation standards (AT-C sections) from the attestation standards that are superseded by SSAE No. 18 (AT sections).

The AT sections in *AICPA Professional Standards* remain effective through April 2017, by which time substantially all engagements for which the AT sections were still effective are expected to be completed. The clarified attestations found in AT-C sections are effective for practitioners' reports dated on or after May 1, 2017.

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**Part 1**

***General Guidance Regarding Prospective  
Financial Information***



# Chapter 1

## Introduction

**1.01** Prospective financial information is of interest to a broad spectrum of parties, including management, present or potential owners of equity interests, credit grantors, other informed third parties, government agencies, and the public.

**1.02** This guide establishes guidelines for the preparation and presentation of forecasts and projections (referred to as prospective financial information). This guide also is intended to assist the practitioner in providing professional services related to and reporting on such information.

**1.03** Prospective financial information is based on assumptions regarding future events. The assumptions are in turn based on a combination of available information and judgment, in which both history and intentions of managements and owners play a part.

**1.04** Because no one can know the future, and because prospective financial information may be affected by many factors both internal and external to the entity, the practitioner is required to exercise professional judgment. This judgment may be used to evaluate when and how conditions are likely to change. These judgments subsequently may prove to be unrepresentative of future conditions; thus, the achievability and reliability of prospective financial information can never be guaranteed.

**1.05** Prospective financial information is less amenable to objective verification than is historical data. When working with or using prospective information, it is essential to understand its inherent limitations.

## Structure of the Guide

**1.06** This guide consists of three parts:

- Part 1, *General Guidance Regarding Prospective Financial Information* (chapters 1–5), provides an introduction to and the foundation for the rest of the guide. It includes a general discussion of prospective financial reporting, defines terms used in the guide, and describes the guide's structure.
- Part 2, *Guidance for Entities that Issue Prospective Financial Information* (chapters 6–9), discusses the concepts underlying the preparation and presentation of prospective financial information. It establishes the AICPA guidelines for presentation of prospective financial information.
- Part 3, *Guidance for Practitioners Providing Services on Prospective Financial Information* (chapters 10–17), describes the application of professional standards to engagements related to prospective financial information.

## Relationship to Other Literature

**1.07** In April 2016, the Auditing Standards Board (ASB) issued Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation*

*Standards: Clarification and Recodification* (AICPA, *Professional Standards*), which supersedes the previously existing attestation standards that governed services on prospective financial information. SSAE No. 18 establishes standards for all examination, review, and agreed-upon procedures engagements under the attestation standards and creates standards specific to providing those services on prospective financial information.<sup>1</sup> It is effective for reports dated on or after May 1, 2017.

**1.08** In October 2016, the Accounting and Review Services Committee issued Statement on Standards for Accounting and Review Services (SSARS) No. 23, *Omnibus Statement on Standards for Accounting and Review Services—2016* (AICPA, *Professional Standards*), which replaces the previous standards on compilations of prospective financial information (which was a section of the attestation standards), effective for reports dated on or after May 1, 2017. It also establishes new standards for preparation services on such information, effective for prospective financial information prepared on or after May 1, 2017.

**1.09** This guide incorporates those standards in the sections on practitioners' services (part 3 of this guide). The guide also provides additional explanatory and illustrative material to aid the practitioner in applying the standards.

**1.10** Previous editions of this guide have been superseded but nonetheless provide the basis for much of the guide's content. The superseded editions are

- *Guide for Prospective Financial Statements* (1986), which was based on the Statement on Standards for Accountants' Services on Prospective Financial Information, "Financial Forecasts and Projections," issued by the ASB in 1985.
- *Guide for Prospective Financial Information* (1993), which incorporated three Statements of Position (SOPs) issued at the time by the ASB's Financial Forecasts and Projections Task Force: SOP 89-3, *Questions Concerning Accountants' Services on Prospective Financial Statements*; SOP 90-1, *Accountants' Services on Prospective Financial Statements for Internal Use Only and Partial Presentations*; and SOP 92-2, *Questions and Answers on the Term Reasonably Objective Basis and Other Issues Affecting Prospective Financial Statements*.
- *Guide for Prospective Financial Information* (1997), which revised the 1993 edition to recognize the implications of the Private Securities Litigation Act of 1995. The 1997 edition was updated in 1999 to incorporate a number of changes needed to conform to authoritative pronouncements issued after 1997.
- *Guide for Prospective Financial Information* (2006), which revised the previous edition to incorporate SSAE No. 10, *Attestation Standards: Revision and Recodification and the guidance in AT sections 101–701*, *Attestation Standards: Revision and Recodification* (AICPA, *Professional Standards*), issued in September 2002; AT section 20, *Defining Professional Requirements in Statements*

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<sup>1</sup> Statement on Standards for Attestation Engagements (SSAE) No. 18, *Attestation Standards: Clarification and Recodification*, is contained in the AT-C sections of AICPA *Professional Standards*. The sections that are specifically addressed by this guide are AT-C section 105, *Concepts Common to All Attestation Engagements*; AT-C section 205, *Examination Engagements*; AT-C section 210, *Review Engagements*; AT-C section 215, *Agreed-Upon Procedures Engagements*; and AT-C section 305, *Prospective Financial Information*.

*on Standards for Attestation Engagements* (AICPA, *Professional Standards*), issued in December 2005; and AT section 50, *SSAE Hierarchy* (AICPA, *Professional Standards*), issued in November 2006.

**1.11** The SEC permits the publication of prospective financial information under certain conditions and has adopted the general policy of encouraging such publication. The SEC has indicated that companies that include prospective financial information in SEC filings or annual reports should meet certain broad standards and disclosure requirements. In addition, the SEC adopted a rule that essentially provides a safe harbor against SEC actions for statements made by or on behalf of companies that issue prospective information or by an independent accountant, unless such statements were (a) made other than in good faith or (b) disclosed without a reasonable basis.

**1.12** The Private Securities Litigation Reform Act of 1995, in addition to other provisions, amends the Securities Act of 1933 and the Securities Exchange Act of 1934 by creating a new safe harbor for forward-looking statements made by an issuer, persons acting on behalf of such issuer, and any outside reviewer retained by such issuer to make a statement on behalf of such issuer. The act reshapes securities laws that professional investors and some class-action lawyers had used against corporations, practitioners, and securities underwriters. The law encourages voluntary disclosure of forward-looking information to investors by establishing a carefully designed safe harbor. Forward-looking statements that include meaningful and cautionary disclosures that identify factors that could alter forecasted results are protected by the safe harbor. However, there are certain notable exclusions to the safe harbor provisions of the act.

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## Chapter 2

### Scope

#### Presentations

**2.01** *Prospective financial information* consists of prospective financial statements and partial presentations.<sup>1</sup> Prospective financial statements may comprise a complete prospective presentation of financial position, results of operations, cash flows, and summaries of significant assumptions and significant accounting policies, or they may be condensed or summarized as long as they contain the items listed in paragraph 8.08. A presentation that does not include the applicable minimum items in paragraph 8.08, including presentations limited to specified elements or accounts, is considered to be a partial presentation.

**2.02** Prospective financial information is often referred to by a number of different names, such as forecasts, projections, feasibility studies, break-even analyses, and budgets. Whatever such information is called, it is covered by this guide if the presentation fits the description of prospective financial information.

**2.03** The objective of some financial presentations, commonly called *pro forma information*, is to show what the significant effects on historical financial information might have been, had a consummated or proposed transaction (or event) occurred at an earlier date. Although the transactions in question may be prospective and such presentations may look like those described in the guide, the guide does not apply to those presentations because they are essentially historical statements and do not purport to be prospective financial statements.

#### Practitioners' Services

**2.04** Practitioners are sometimes engaged for the expressed purpose of preparing, compiling, examining, or applying agreed-upon procedures to prospective financial information. Often, however, they are engaged to assist their clients in other areas. Examples are obtaining financing, deciding whether to lease or buy an asset, consummating a merger or acquisition, determining the tax consequences of future actions, or planning future operations. In providing such services, practitioners may become involved with prospective financial information. This guide applies to the provision of professional services when the practitioner is engaged to prepare, compile, examine, or apply agreed-upon procedures to prospective financial information.

**2.05** The guidance on practitioners' services described in this guide are applicable to services provided on both prospective financial statements and partial presentations.

**2.06** The practitioner may perform procedures to achieve the engagement's objectives that exceed the procedures discussed in this guide. For example, the guide is not intended to cover all aspects of performing financial feasibility studies, although such studies usually contain prospective financial

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<sup>1</sup> See the definition of *prospective financial information* that is presented in paragraph 3.12.

information. However, if a practitioner provides a service on a feasibility study that includes examining prospective financial information, then this guide applies to that service and resulting report. (Paragraph 15.26 illustrates a report on an examination of a financial forecast contained in a feasibility study.)

**2.07** Practitioners may be engaged to provide a variety of services relating to prospective financial information, such as providing assistance in developing forecasting systems and identifying factors to be considered in developing prospective financial statements. This guide is not intended to provide comprehensive guidance regarding such services.<sup>2</sup>

**2.08** Sometimes, practitioners are associated with prospective financial information that may be used in a pending or potential formal legal proceeding before a trier of fact in connection with the resolution of a dispute between two or more parties. These services are often called litigation support services.

**2.09** This guide does not apply to engagements involving prospective financial information used solely in connection with litigation support services. A practitioner may, however, look to this guide because it provides helpful guidance for many aspects of such engagements and may be referred to as useful guidance in such engagements. Alternatively, a practitioner may be specifically engaged to provide an examination or agreed-upon procedures service on prospective financial information in connection with litigation support services. In that case, the guide does apply to the examination or agreed-upon procedures service.

**2.10** Occasionally, a practitioner may be engaged to prepare a financial analysis of a potential project in which the engagement includes obtaining the information, making appropriate assumptions, and assembling the presentation. Such an analysis is not, and should not be characterized as, forecasted or projected information and would not be appropriate for general use unless a responsible party reviewed and adopted the assumptions and presentation and presented it as a financial forecast.

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<sup>2</sup> However, this guide may include information that would be useful to the practitioner when providing such services (see chapter 10, "Types of Practitioners' Services").

## Chapter 3

### Definitions

**3.01** Certain terms are defined as follows for the purposes of this guide.

**3.02** *AICPA presentation guidelines.* The guidelines for presentation of prospective financial information contained in chapter 8, "Presentation Guidelines," of this guide.<sup>1</sup>

**3.03** *Entity.* Any unit, existing or to be formed, for which financial statements could be prepared in accordance with generally accepted accounting principles or special purpose frameworks.<sup>2</sup> For example, an entity can be an individual, partnership, corporation, trust, estate, association, or governmental unit.

**3.04** *Financial forecast.* Prospective financial statements that present, to the best of the responsible party's knowledge and belief, an entity's expected financial position, results of operations, and cash flows. A financial forecast is based on the responsible party's assumptions reflecting conditions it expects to exist and the course of action it expects to take. A financial forecast may be expressed in specific monetary amounts as a single-point estimate of forecasted results or as a range, where the responsible party selects key assumptions to form a range within which it reasonably expects, to the best of its knowledge and belief, the item or items subject to the assumptions to actually fall. If a forecast contains a range, the range is not selected in a biased or misleading manner (for example, a range in which one end is significantly less expected than the other). Minimum presentation guidelines for a financial forecast are set forth in paragraph 8.08.

**3.05** *Financial projection.* Prospective financial statements that present, to the best of the responsible party's knowledge and belief, given one or more hypothetical assumptions, an entity's expected financial position, results of operations, and cash flows. A financial projection is sometimes prepared to present one or more hypothetical courses of action for evaluation, as in response to a question that begins for instance, "What would happen if . . . ?" A financial projection is based on the responsible party's assumptions reflecting conditions it expects would exist and the course of action it expects would be taken, given one or more hypothetical assumptions. A projection, like a forecast, may contain a range. Minimum presentation guidelines for a financial projection are set forth in paragraph 8.08.

**3.06** *General use.* Use of prospective financial statements by persons with whom the responsible party is not negotiating directly.

**3.07** *Hypothetical assumption.* An assumption used in a financial projection or in a partial presentation of projected information to present a condition

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<sup>1</sup> Application of the guidelines in chapter 8, "Presentation Guidelines," requires consideration of matters in other chapters in this guide, for example, the concepts of general and limited use (chapter 4, "Types of Prospective Financial Information and Their Uses") and reasonably objective basis (chapter 7, "Reasonably Objective Basis").

<sup>2</sup> AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (AICPA, *Professional Standards*), and AR-C sections 70, *Preparation of Financial Statements*, and 80, *Compilation Engagements* (AICPA, *Professional Standards*) discuss special purpose frameworks, commonly called other comprehensive bases of accounting or OCBOA.