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Accounting for income taxes : special areas; Opinions of the Accounting Principles Board 23; APB Opinion 23

American Institute of Certified Public Accountants. Accounting Principles Board

OPINIONS OF THE ACCOUNTING PRINCIPLES BOARD

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23

Accounting for Income Taxes— Special Areas

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Paragraph Numbers

Issued by the Accounting Principles Board of the American Institute of Certified Public Accountants

INTRODUCTION

1. In December 1967 the Accounting Principles Board issued APB Opinion No. 11, *Accounting for Income Taxes,* but deferred modifying the practices of accounting for income taxes in five special areas identified in paragraphs 38 through 41 of that Opinion as requiring further study:

a. Undistributed earnings of subsidiaries

b. Intangible development costs in the oil and gas industry

c. "General reserves" of stock savings and loan associations

d. Amounts designated as "policyholders' surplus" by stock life insurance companies

e. Deposits in statutory reserve funds by United States steamship companies.

2. The Board has examined the characteristics of the tax consequences of transactions in the three special areas designated (a), (c), and (d) above and sets forth in this Opinion its conclusions on appropriate accounting treatments. The Board continues to defer conclusions on intangible development costs in the oil and gas industry pending the issuance of an Opinion on extractive industries. The Board also defers conclusions on deposits in capital construction funds or statutory reserve funds by United States steamship companies until regulations covering the provisions of the Merchant Marine Act of 1970 are available; experience under the 1970 Act, which substantially modified the Merchant Marine Act of 1936, is now limited. The Board also expresses in this Opinion its conclusions on accounting for taxes on income from investments in corporate joint ventures accounted for by the equity method in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock.* APB Opinion No. 24 covers accounting for taxes on income from investments in common stock accounted for by the equity method (other than subsidiaries and corporate joint ventures).

3. This Opinion supersedes paragraph 16 of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*

paragraphs 38, 39, and 41 of APB Opinion No. 11 and paragraph 19(j) of APB Opinion No. 18. Except as stated in the preceding sentence this Opinion does not modify APB Opinion No. 11.

4. This Opinion applies to financial statements which purport to present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles. It does not apply to regulated industries in those circumstances meeting the standards described in the Addendum to APB Opinion No. 2, *Accounting for the "Investment Credit."*

Discussion

5. In APB Opinion No. 11 the Board defined differences between taxable income and pretax accounting income as either timing differences or permanent differences and provided criteria for distinguishing between the differences. Timing differences are "Differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income. Timing differences originate in one period and reverse or 'turn around' in one or more subsequent periods." Permanent differences are "Differences between taxable income and pretax accounting income arising from transactions that, under applicable tax laws and regulations, will not be offset by corresponding differences or 'turn around' in other periods." The Board also recognized that the tax consequences of a number of other transactions are somewhat similar to those of timing differences; however, the initial differences between taxable income and pretax accounting income related to the transactions may not reverse until indefinite future periods or may never reverse.

6. A timing difference arises when the initial difference between taxable income and pretax accounting income originates in one period and predictably reverses or turns around in one or more subsequent periods. The reversal of a timing difference at some future date is definite and the period of reversal is generally predictable within reasonable limits. Sometimes, however, reversal of a difference cannot be predicted because the

events that create the tax consequences are controlled by the taxpayer and frequently require that the taxpayer take specific action before the initial difference reverses.

UNDISTRIBUTED EARNINGS OF SUBSIDIARIES

Discussion

7. Paragraph 16 of ARB No. 51, *Consolidated Financial Statements,* which is superseded by this Opinion, provided guides for interperiod allocation of income taxes that will be incurred at the date that previously undistributed earnings of subsidiaries are remitted to the parent company.[1] The concept of accruing income taxes for earnings included in consolidated income in accordance with ARB No. 51 has been applied inconsistently. Some believe that the only appropriate method is to accrue related deferred taxes substantially in accordance with paragraphs 36 and 37 of APB Opinion No. 11, while others believe that under the criteria set forth in ARB No. 51 a parent company need accrue related deferred taxes only if the transfer of earnings to the parent company in a taxable distribution is imminent or relatively certain. Disclosure of the accounting for income taxes on undistributed earnings of subsidiaries has often been inadequate. Some believe that the contingent liability for taxes that would be payable if the undistributed earnings of subsidiaries were remitted should be disclosed. In their view changing circumstances, often beyond the control of the parent company, may accelerate distribution of earnings of a subsidiary so that the parent company will incur a tax for which no provision has been made. They believe an inability to determine the exact amount of the tax that might be payable is in itself no justification for not accruing the best current estimate of the

1 Paragraph 16 of ARB No. 51 stated: "When separate income tax returns are filed, income taxes usually are incurred when earnings of subsidiaries are transferred to the parent. Where it is reasonable to assume that a part or all of the undistributed earnings of a subsidiary will be transferred to the parent in a taxable distribution, provision for related income taxes should be made on an estimated basis at the time the earnings are included in consolidated income, unless these taxes are immaterial in amount when effect is given, for example, to dividend-received deductions or foreign-tax credits. There is no need to provide for income tax to the parent company in cases where the income has been, or there is evidence that it will be, permanently invested by the subsidiaries, or where the only likely distribution would be in the form of a tax-free liquidation."

contingent liability. Others believe that instead the amount of undistributed earnings of subsidiaries for which a parent company has not accrued income taxes should be disclosed in notes to financial statements. In their view disclosure of a hypothetical tax which would be payable, assuming those earnings were distributed currently, implies a contradiction of the decision that it is not necessary to provide for income taxes on the earnings in the financial statements. They do not believe that such a hypothetical tax is normally a realistic quantification of the contingent taxes that would be incurred even if some portion of the undistributed earnings were remitted.

8. A domestic or foreign subsidiary remits earnings to a parent company after the parties consider numerous factors, including the following:

a. Financial requirements of the parent company

b. Financial requirements of the subsidiary

c. Operational and fiscal objectives of the parent company, both long-term and short-term

d. Remittance restrictions imposed by governments

e. Remittance restrictions imposed by lease or financing agreements of the subsidiary

f. Tax consequences of the remittance.

Remittance of earnings of a subsidiary may sometimes be indefinite because of the specific long-term investment plans and objectives of the parent company. Even in the absence of long-term investment plans, the flexibility inherent in the United States Internal Revenue Code may permit a parent company to postpone income taxes on the earnings of a subsidiary for an extended period or may permit the ultimate distribution to be taxed at special rates applicable to the nature of the distribution. Other circumstances may indicate that the earnings will probably be remitted in the foreseeable future. However, the parent company may control the events that create the tax consequences in either circumstance.

Opinion

9. The Board concludes that including undistributed earnings of a subsidiary[2] in the pretax accounting income of a parent company, either through consolidation or accounting for the investment by the equity method, may result in a timing difference, in a difference that may not reverse until indefinite future periods, or in a combination of both types of differences, depending on the intent and actions of the parent company.

10. *Timing difference.* The Board believes it should be presumed that all undistributed earnings of a subsidiary will be transferred to the parent company. Accordingly, the undistributed earnings of a subsidiary included in consolidated income (or in income of the parent company[3]) should be accounted for as a timing difference, except to the extent that some or all of the undistributed earnings meet the criteria in paragraph 12. Income taxes attributable to a timing difference in reporting undistributed earnings of a subsidiary should be accounted for in accordance with the provisions of APB Opinion No. 11 for interperiod allocation of taxes. Problems in measuring and recognizing the tax effect of a timing difference do not justify ignoring income taxes related to the timing difference. Income taxes of the parent company applicable to a timing difference in undistributed earnings of a subsidiary are necessarily based on estimates and assumptions. For example, the tax effect may be determined by assuming that unremitted earnings were distributed in the current period and that the parent company received the benefit of all available tax-planning alternatives and available tax credits and deductions.[4] The income tax expense of the parent company should also include taxes that would have been withheld if the undistributed earnings had been remitted as dividends.

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2 The conclusions of the Board on undistributed earnings of a subsidiary also apply to the portion of the earnings of a Domestic International Sales Corporation (DISC) that is eligible for tax deferral.

3 Paragraph 14 of APB Opinion No. 18.

4 As the unused tax credits that are recognized by the parent in determining deferred income taxes on undistributed earnings of a subsidiary are subsequently realized, the initial reduction in deferred taxes should be reinstated at the then current rates in accordance with the provisions of APB Opinion No. 11.

11. The tax effect of a difference between taxable income and pretax accounting income attributable to losses of a subsidiary should be accounted for in accordance with the Board's conclusions on operating losses in paragraphs 44 through 50 of APB Opinion No. 11.

12. *Indefinite reversal criteria.* The presumption that all undistributed earnings will be transferred to the parent company may be overcome, and no income taxes should be accrued by the parent company, if sufficient evidence shows that the subsidiary has invested or will invest the undistributed earnings indefinitely or that the earnings will be remitted in a tax-free liquidation. A parent company should have evidence of specific plans for reinvestment of undistributed earnings of a subsidiary which demonstrate that remittance of the earnings will be postponed indefinitely. Experience of the companies and definite future programs of operations and remittances are examples of the types of evidence required to substantiate the parent company's representation of indefinite postponement of remittances from a subsidiary. If circumstances change and it becomes apparent that some or all of the undistributed earnings of a subsidiary will be remitted in the foreseeable future but income taxes have not been recognized by the parent company, it should accrue as an expense of the current period income taxes attributable to that remittance; income tax expense for such undistributed earnings should not be accounted for as an extraordinary item. If it becomes apparent that some or all of the undistributed earnings of a subsidiary on which income taxes have been accrued will not be remitted in the foreseeable future, the parent company should adjust income tax expense of the current period; such adjustment of income tax expense should not be accounted for as an extraordinary item.

13. *Change in investment.* An investment in common stock of a subsidiary may change so that it is no longer a subsidiary because the parent company sells a portion of the investment, the subsidiary sells additional stock, or other transactions affect the investment. If the remaining investment in common stock should be accounted for by the equity method, the investor

should recognize income taxes on its share of current earnings of the investee company in accordance with the provisions of APB Opinion No. 24. If a parent company did not recognize income taxes on its equity in undistributed earnings of a subsidiary for the reasons cited in paragraph 12 (and the company in which the investment is held ceases to be a subsidiary), it should accrue as a current period expense income taxes on undistributed earnings in the period that it becomes apparent[5] that any of those undistributed earnings (prior to the change in status) will be remitted; the accrual of those income taxes should not be accounted for as an extraordinary item. If a parent company recognized income taxes on its equity in undistributed earnings of a subsidiary, the amount of deferred income taxes of the parent attributable to undistributed earnings of the subsidiary should be considered in accounting for a disposition through sale or other transaction which reduces the investment.

14. *Disclosure.* Information concerning undistributed earnings of a subsidiary for which income taxes have not been accrued that should be disclosed in notes to financial statements includes:

a. A declaration of an intention to reinvest undistributed earnings of a subsidiary to support the conclusion that remittance of those earnings has been indefinitely postponed, or a declaration that the undistributed earnings will be remitted in the form of a tax-free liquidation, and

b. The cumulative amount of undistributed earnings on which the parent company has not recognized income taxes.[6]

INVESTMENTS IN CORPORATE JOINTS VENTURES

Discussion

15. Corporate joint ventures, as defined in APB Opinion No. 18, are of two kinds: (1) those essentially permanent in

5 The change in the status of an investment would not by itself mean that remittance of these undistributed earnings should be considered apparent.

6 Other disclosure requirements in paragraphs 56-64 of APB Opinion No. 11 may also apply. Disclosure of other matters such as available tax credits and deductions may be desirable.

duration and (2) those that have a life limited by the nature of the venture or other business activity. In APB Opinion No. 18 the Board concluded that the equity method of accounting best enables an investor in a corporate joint venture to recognize the underlying nature of the investment regardless of duration.

16. Unless characteristics indicate a limited life, a corporate joint venture has many of the characteristics of a subsidiary. The investors usually participate in the management of the joint venture, consider the factors set forth in paragraph 8 above, and agree (frequently before forming the venture) as to plans for long-term investment, for utilizing the flexibility inherent in the United States Internal Revenue Code, and for planned remittances.

Opinion

17. The Board concludes that the principles applicable to undistributed earnings of subsidiaries (paragraphs 9, 10, 11, 12, and 13) also apply to tax effects of differences between taxable income and pretax accounting income attributable to earnings of corporate joint ventures that are essentially permanent in duration and are accounted for by the equity method.[7]

18. *Disclosure.* The disclosure requirements set forth in paragraph 14 also apply to earnings of corporate joint ventures.

"BAD DEBT RESERVES" OF SAVINGS AND LOAN ASSOCIATIONS

Discussion

19. Regulatory authorities require both stock and mutual savings and loan associations to appropriate a portion of earnings to general reserves[8] and to retain the reserves as a protection for depositors. Provisions of the United States Internal Revenue Code permit a savings and loan association to deduct an annual addition to a reserve for bad debts[8] in determining taxable in-

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[7] Certain corporate joint ventures have a life limited by the nature of the venture, project, or other business activity. Therefore, a reasonable assumption is that a part or all of the undistributed earnings of the venture will be transferred to the investor in a taxable distribution. Deferred taxes should be recorded, in accordance with the concepts of APB Opinion No. 11 at the time the earnings (or losses) are included in the investor's income.

[8] The terms *general reserves* and *reserve for bad debts* are used in the context of the special meaning these terms have in regulatory pronouncements and in the United States Internal Revenue Code.

come, subject to certain limitations. This annual addition permitted by the Code generally differs significantly from the bad debt experience upon which determination of pretax accounting income is based. Thus, taxable income and pretax accounting income of an association usually differ.

20. Although a general reserve determined according to requirements of the regulatory authorities is not directly related to a reserve for bad debts computed according to provisions of the United States Internal Revenue Code, the purposes and retrictions of each reserve are similar. Amounts of bad debt deductions for income tax purposes are includable in taxable income of later years only if the bad debt reserves are used subsequently for purposes other than to absorb bad debt losses.

21. The term *pretax accounting income,* as used in this section, represents income or loss for a period, exclusive of related income tax expense, determined in conformity with generally accepted accounting principles. The term *taxable income*, as used in this section, represents pretax accounting income (a) adjusted for reversal of provisions for estimated losses on loans and property acquired in settlement of loans, and gains or losses on the sales of such property, and adjusted for permanent differences, and (b) after giving effect to the bad debt deduction allowable by the United States Internal Revenue Code assuming the applicable tax return were to be prepared based on such adjusted pretax accounting income.

22. Some believe that a difference between taxable income and pretax accounting income attributable to a bad debt reserve that is accounted for as part of the general reserve and undivided profits of a savings and loan association has attributes of a permanent or indefinite deferral of tax payments. In their view, a savings and loan association should not accrue income taxes on such differences. Others believe that this difference has the principal attributes of a timing difference as described in paragraphs 36 and 37 of APB Opinion No. 11. In effect, they believe that this difference is a Government-sponsored deferral of tax, that

the Government has an equity in the savings and loan association to the extent of the deferred tax, and that it is inappropriate to include earnings in stockholders' equity without accruing income taxes which the association would incur if the earnings were distributed to stockholders or otherwise became subject to tax. In their view the savings and loan association should recognize deferred taxes on the difference.

Opinion

23. The Board concludes that a difference between taxable income and pretax accounting income attributable to a bad debt reserve that is accounted for as part of the general reserves and undivided profits of a savings and loan association[9] may not reverse until indefinite future periods or may never reverse. The association controls the events that create the tax consequence, and the association is required to take specific action before the initial difference reverses. Therefore, a savings and loan association should not provide income taxes on this difference. However, if circumstances indicate that the association is likely to pay income taxes, either currently or in later years, because of known or expected reductions in the bad debt reserve, income taxes attributable to that reduction should be accrued as tax expense of the current period; the accrual of those income taxes should not be accounted for as an extraordinary item.

24. *Disclosure.* Information that should be disclosed in notes to financial statements of a savings and loan association concerning bad debt reserves that are accounted for as part of the general reserves and undivided profits includes:

a. The purposes for which the reserves are provided under the applicable rules and regulations and the fact that income taxes may be payable if the reserves are used for other purposes, and

[9] Paragraph 38 of APB Opinion No. 11 indicated that the "general reserves" of stock savings and loan associations was a special area requiring further study. In practice the statement also has been applied to mutual savings and loan associations and mutual savings banks. The Board affirms that its conclusions in this Opinion apply to stock and mutual savings and loan associations and mutual savings banks.

b. The accumulated amount of the reserves for which income taxes have not been accrued.[10]

25. The disclosure requirements set forth in paragraph 24 also apply to a parent company of a savings and loan association accounting for that investment either through consolidation or by the equity method.

"POLICYHOLDERS' SURPLUS" OF STOCK LIFE INSURANCE COMPANIES

Discussion

26. The provisions of the United States Internal Revenue Code provide for the exclusion from taxable income of a stock life insurance company of amounts determined under a formula and the allocation of those amounts to policyholders' surplus until the total policyholders' surplus equals a specified maximum. The amounts excluded from taxable income and designated as policyholders' surplus are includable in taxable income of later years if the company elects to (a) distribute policyholders' surplus to stockholders as dividends, (b) transfer amounts from policyholders' surplus to shareholders' surplus designated for tax purposes as available for any business purpose, or (c) take, or if it fails to take, certain other specified actions (none of which usually occur).

27. Some believe that a difference between taxable income and pretax accounting income attributable to amounts designated as policyholders' surplus of a stock life insurance company has attributes of a permanent or indefinite deferral of tax payments. In their view, a stock life insurance company should not accrue income taxes on the difference between taxable income and pretax accounting income related to amounts designated as policyholders' surplus unless circumstances indicate that the insurance company is likely to pay income taxes, either currently or in future years, because of known or expected reductions in policyholders' surplus. Others believe that the difference has the principal attributes of a timing difference as described in paragraphs 36 and 37 of APB Opinion No. 11. In effect, they believe that the difference is a Government-sponsored deferral of tax,

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10 Other disclosure requirements in paragraphs 56-64 of APB Opinion No. 11 may also apply.

that the Government has an equity in the stock life insurance company to the extent of the deferred tax, and that it is inappropriate to include earnings in stockholders' equity without accruing income taxes which would be incurred by the stock life insurance company if those earnings were distributed to stockholders or otherwise became subject to tax. In their view the stock life insurance company should accrue deferred taxes on the difference.

Opinion

28. The Board concludes that a difference between taxable income and pretax accounting income attributable to amounts designated as policyholders' surplus of a stock life insurance company may not reverse until indefinite future periods or may never reverse. The insurance company controls the events that create the tax consequences and the company is generally required to take specific action before the initial difference reverses. Therefore, a stock life insurance company should not accrue income taxes on the difference between taxable income and pretax accounting income attributable to amounts designated as policyholders' surplus. However, if circumstances indicate that the insurance company is likely to pay income taxes, either currently or in later years, because of known or expected reductions in policyholders' surplus, income taxes attributable to that reduction should be accrued as a tax expense of the current period; the accrual of those income taxes should not be accounted for as an extraordinary item.

29. *Disclosure.* Information concerning amounts designated as policyholders' surplus of a stock life insurance company that should be disclosed in notes to financial statements includes:

a. The treatment of policyholders' surplus under the United States Internal Revenue Code and the fact that income taxes may be payable if the company takes certain specified actions, which should be appropriately described, and
b. The accumulated amount of the policyholders' surplus for which income taxes have not been accrued.[11]

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[11] Other disclosure requirements in paragraphs 56-64 of APB Opinion No. 11 may also apply.

30. The disclosure requirements set forth in paragraph 29 also apply to a parent company of a stock life insurance company accounting for that investment either through consolidation or by the equity method.

EFFECTIVE DATE

31. This Opinion shall be effective for all fiscal periods beginning after December 31, 1971. However, the Board encourages earlier application of the provisions of this Opinion.

32. The conclusions of the Board on accounting for income taxes on undistributed earnings of subsidiaries and corporate joint ventures represent a clarification of current practice. Accordingly, this Opinion should be applied retroactively to undistributed earnings of subsidiaries included in consolidated financial statements and to undistributed earnings applicable to unconsolidated subsidiaries and investments in corporate joint ventures accounted for by the equity method in accordance with APB Opinion No. 18. An adjustment resulting from a change in accounting method to comply with this Opinion should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated.

33. The conclusions of the Board on "bad debt reserves" of savings and loan associations and amounts designated as "policyholders' surplus" by stock life insurance companies agree generally with current practice. If application of this Opinion should result in a change in accounting principle, the adjustment should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated.

The Opinion entitled "Accounting for Income Taxes—Special Areas" was adopted by the assenting votes of fourteen members of the Board, of whom four, Messrs. Halvorson, Hellerson, Norr, and Watt, assented with qualification. Messrs. Bevis, Bows, Broeker, and Burger dissented.

Mr. Halvorson assents to the publication of this Opinion but believes that a company should be permitted to accrue taxes on differences between taxable income and pretax accounting income in any cirmustances where management judgment so dictates and that the prohibition thereof expressed by the "should not" injunction in paragraphs 12, 23, and 28 will stifle what could be a desirable development in accounting. He further believes that the disclosure of the cumulative amount of untaxed earnings required by paragraphs 14, 24, and 29 should be coupled with a requirement to disclose the amount of such earnings for each period currently under report.

Mr. Hellerson assents to the issuance of this Opinion as he believes it does clarify and standardize the accounting in the areas encompassed by it. However, he qualifies his assent because of disagreement with the last two sentences of paragraph 12. It is his view that if undistributed earnings of a subsidiary on which income taxes have not been recognized are, in fact, remitted this may be prima facie evidence that the company's plans have changed and a tax on the remainder of the undistributed earnings which have not, in fact, been reinvested should be provided. He also disagrees with the final sentence in paragraph 12 which sanctions the reversal of a tax previously accrued. It is his view that any plans for reinvestment of undistributed earnings should be applied prospectively and not retroactively, i.e., the tax expense for the current and future periods should be affected. Further, it is his understanding that the thrust of the portion of the Opinion pertaining to undistributed earnings of subsidiaries is that all such undistributed earnings give rise to a timing difference for which comprehensive interperiod income tax allocation is required in accordance with APB Opinion No. 11, *Accounting for Income Taxes.* However, after giving effect to available tax-planning alternatives and available tax credits and deductions the resulting tax effect of the timing difference may be nil. He believes that paragraph 10, and particularly the second sentence thereof, does not clearly describe this thrust.

Mr. Norr assents to the publication of this Opinion but objects to the conclusions of paragraph 14(b). He believes that the most meaningful disclosure for the reader is the estimated amount of taxes that might be payable on undistributed earnings of the current period if such earnings were to be remitted currently taking into consideration all available tax-planning alternatives and available tax credits and deductions.

Mr. Watt assents to the issuance of this Opinion because it results in the accrual of only income taxes reasonably expected to be paid. However, he disagrees with the conclusions in paragraphs 12, 13, 23, and 28 that *in all cases* when circumstances change, income taxes not previously recognized or income taxes accrued but no longer required may never be accounted for as an extraordinary item. He believes that such adjustments should qualify as extraordinary in some cases based on a combination of extreme infrequency of occurrence and abnormal size. He further believes that this Opinion should not have an effective date prior to its issuance but instead should have been effective for fiscal periods beginning after December 31, 1972 to allow a reasonable time for preparation of information necessary to implement the Opinion.

Mr. Bevis dissents to this Opinion because he believes it contradicts the concepts of APB Opinion No. 11, *Accounting for Income Taxes.*

Messrs. Bows, Broeker, and Burger dissent to this Opinion because they believe the major conclusions relating to the omission of a requirement for providing deferred taxes are not supported in theory or logic by the provisions of the income tax laws. In their view, the Government sponsors a benefit by providing the use of tax funds during the deferment period (regardless of how long it may be), but it does not provide for the ultimate waiver of the taxes on those earnings. This Opinion validates a practice that they consider to be completely contrary to the underlying concepts of deferred tax accounting applicable to other businesses (APB Opinion No. 11) by sponsoring the idea that certain earnings may be accounted for on an accrual basis while the related income taxes are accounted for on the cash basis. They also believe that the accounting distinction provided in this Opinion for over 50% investors (no deferred income taxes) and in APB Opinion No. 24 for less than 50% investors (deferred taxes) is completely artificial.

NOTES

Opinions of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board, which is the senior technical body of the Institute authorized to issue pronouncements on accounting principles.

Board Opinions are considered appropriate in all circumstances covered but need not be applied to immaterial items.

Covering all possible conditions and circumstances in an Opinion of the Accounting Principles Board is usually impracticable. The substance of transactions and the principles, guides, rules, and criteria described in Opinions should control the accounting for transactions not expressly covered.

Unless otherwise stated, Opinions of the Board are not intended to be retroactive.

Council of the Institute has resolved that Institute members should disclose departures from Board Opinions in their reports as independent auditors when the effect of the departures on the financial statements is material or see to it that such departures are disclosed in notes to the financial statements and, where practicable, should disclose their effects on the financial statements (Special Bulletin, Disclosure of Departures from Opinions of the Accounting Principles Board, *October 1964). Members of the Institute must assume the burden of justifying any such departures.*