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**SECURITIES AND EXCHANGE COMMISSION
Philadelphia**

HOLDING COMPANY ACT OF 1935

Release No. 3992

ACCOUNTING SERIES

Release No. 39

The Securities and Exchange Commission today announced the adoption of certain revisions, effective January 1, 1943, to its Uniform System of Accounts for Public Utility Holding Companies. Since printed copies of the system of accounts as revised will not be available for distribution for some time, the amendments in mimeographed form are attached to this release. Under the provisions of Rule U-26 the revised system, subject to certain exceptions, is applicable to all registered public utility holding companies and their subsidiary holding companies. The principal exception covers holding companies which are also operating companies.

The original system of accounts prescribed for public utility holding companies was adopted August 8, 1936, became effective January 1, 1937, and has continued in effect without change up to the present revisions. Experience with the system over the past six years, however, indicated that certain changes might profitably be made. Accordingly, amendments proposed by the staff and others were transmitted for consideration and comment to representatives of the utility industry, professional accounting societies, State and Federal regulatory bodies, and others. After careful consideration of the replies received the proposed amendments have been revised and adopted by the Commission. In addition to certain technical changes and other minor changes designed to improve and clarify the system of accounts, revisions of a substantive character were made in the following accounts:

The revised text of Account 100, Investment Securities and Advances, includes a new paragraph relating to investments now carried at unsegregated book amounts. Where it is not possible to determine from the accounts and supporting records the amount applicable to each of such investments, it is provided that they may be stated at one amount but, hereafter, upon sale or disposal of any such investment, the unsegregated amount is required to be allocated to each investment unless the Commission otherwise approves or directs, the method of allocation being subject to the approval or direction of the Commission.

The revised texts of Account 120, Discount on Capital Stock; Account 121, Commissions and Expense on Capital Stock; Account 130, Reacquired Capital Stock; and Account 150, Capital Stock, now provide that premiums and assessments on one class of capital stock may not generally, without approval of the Commission, be used to absorb discount and repurchase premium on capital stock of a different class.

The text of Account 200, Dividends, in the original system has been substantially changed by notes A and B in the revised system. Note A now prohibits the taking up of stock dividends as income or surplus if the stock received as a dividend is of the same class as the stock on which the dividend in stock is paid. Under the original system stock dividends might be taken

into income or surplus under certain conditions if the recipient company chose to do so. A new note B provides that if the dividend received in stock is of a class different from that on which the dividend is paid, the dividend may, with prior approval of the Commission, be treated as income.

Account 240, Taxes, Other than Income Taxes, and Account 270, Income Taxes, in the revised system supersede Account 240, Taxes, in the original system and result in separating income taxes from other taxes. The order of presentation of the accounts also indicates that income taxes should be shown as the last item of deductions in computing net income rather than as an operating expense.

While the revision of the Classification was in process, a suggestion was received that holding company investments be carried at amounts which reflect their equity in the subsidiaries on the basis of the underlying original cost of the subsidiaries' property, less appropriate depreciation and depletion reserves, and that any present excess over that amount be segregated and eventually eliminated. While this proposal was rejected, it was recognized that in balance sheets of public utility companies, it is important to set forth tangible and intangible utility plant so as to show separately the original cost, plant acquisition adjustments, and plant adjustments, and, in consolidated balance sheets of a public utility holding company and its subsidiaries, to show in addition the difference between the parent's investment in and the underlying book equity of subsidiaries as at the respective dates of acquisition. It is therefore proposed to adopt rules to require such segregation in financial statements filed with the Commission where original cost studies have been completed and to require appropriate footnote disclosures where such original cost studies are not completed or required.

The text of the Commission's action follows:

Acting pursuant to the authority granted by the Public Utility Holding Company Act of 1935, particularly Sections 15 and 20 (a) thereof, and finding such action necessary and appropriate in the public interest and for the protection of investors and consumers, and to carry out the provisions of said Act, the Securities and Exchange Commission hereby amends the Uniform System of Accounts for Public Utility Holding Companies, Dated August 8, 1936, Effective January 1, 1937. This system of accounts, as revised, in the form annexed hereto, is for use, effective January 1, 1943, as prescribed in Rule U-26 of the General Rules and Regulations of the Commission under said Act.

The system of accounts, as revised, will not be available in final printed form until sometime early in 1943. Until such time, however, there are attached, for use by registered holding companies and others, the paragraphs of the system of accounts, as revised, which have been changed. Paragraphs revised for minor or clarifying changes in language are not necessarily given.

*Amendments to Uniform System of
Accounts for Public Utility Holding Companies*

(The following sections or paragraphs
give effect to the amendments adopted).

GENERAL INSTRUCTIONS

1. Companies for Which This System of Accounts is Prescribed.

This system of accounts is prescribed for holding companies subject to the provisions of Rule U-26 adopted under the Public Utility Holding Company Act of 1935. Attention is directed to Sections 15 (e) and 20 (b) of the Act and Rule U-26 which, except as otherwise specifically provided therein, make it unlawful for any company subject to the provisions of this system of accounts to keep any accounts in lieu of those herein provided, or to keep the accounts herein provided in a manner other than as prescribed or approved by the Commission.

2. Submission of Questions.

To promote and maintain uniformity and sound accounting there shall be submitted to the Commission for consideration and decision all cases in which the company is uncertain as to the interpretation of the prescribed accounting rules or the accounting procedure to be followed.

3. Records.

C. No company shall destroy any books or records as defined in paragraph (B) above without first having obtained the consent and approval of the Commission.

4. Definitions--When Used in This System of Accounts.

B. "Actually outstanding," as applied to certificates of capital stock or evidences of debt, means those which have been issued (or assumed) by the company and neither have been retired, nor have been reacquired by or for the company, nor are held in its sinking or other funds.

E. "Book amount" means the amount at which assets are recorded in the accounts of the company (without deduction of any related reserves or other items).

(Note: As a result of this change, the term "book cost" will be changed to read "book amount" wherever used in the revised system.)

8. Basis of Recording Investments on Books.

B. If the consideration given for any investment is other than cash or securities issued by the acquiring company, the cost of the investment acquired shall, except as provided under instruction 9, "Investments acquired in reorganization," be deemed to be the fair current value of the consideration given. If the consideration given for any investment consists of securities issued by the acquiring company, the cost of the investment acquired shall be deemed to be the fair current value of such investment.

9. Investments Acquired in Reorganization.

C. It is the intention that the reserve, so far as it is adequate, shall be used to adjust all differences between the amount originally set up on the books with respect to the items to which the reserve relates and fair current values as finally determined; and that the reserve shall be affected only by losses or gains clearly attributable to operations or events originating prior to date of acquisition and inherent in the investments at date of acquisition.

E. This paragraph is stricken.

*Balance-Sheet Accounts**Asset and Other Debit Accounts*

100. Investment Securities and Advances.

This account shall include the book amount of investments in other companies, except such as may be includible in account 101, "Miscellaneous investments." Include in this account the book amount of investments in common stocks, preferred stocks, bonds, notes, and other obligations, issued or assumed by other companies, and also the amount of advances to them on open account not subject to current settlement.

Records shall be maintained in such manner that the company can report separately the amount of investments in, and advances to, (a) subsidiaries, majority owned, which are (1) consolidated, (2) not consolidated in the consolidated balance sheet of the company; (b) investments in other statutory subsidiaries; (c) investments in other associate companies; and (d) investments in other companies. (Note general instructions 4D and 4L).

Records supporting the entries to this account shall be kept to show the book amount of each of the following kinds of investment in each company:

- (a) Common stocks (by classes).
- (b) Preferred stocks (by classes).
- (c) Bonds (by classes).
- (d) Other secured obligations (specified).
- (e) Unsecured notes.
- (f) Advances on open account.

If two or more investments acquired prior to the effective date of this system of accounts are carried at an unsegregated book amount and it is not possible to determine from the accounts and supporting records the portions thereof applicable to each, they may be stated in one amount, provided that upon the sale or other disposal of any of such investments the unsegregated amount shall be allocated to each investment unless the Commission otherwise approves or directs. The method followed in making the allocation shall be such as the Commission may approve or direct.

105. Organization.

Note B.--Amounts included in this account on the books of companies merged, consolidated or reorganized shall not be carried forward to this account on the books of the successor or continuing corporation except to the extent approved by the Commission.

112. Temporary Cash Investments.

Note A.--Securities issued or assumed by the company or any associate company shall not be included in this account.

116. Dividends Receivable.

This account shall include the amount of dividends receivable on stocks owned, but unpaid at the date of the balance sheet. Dividends shall not be taken up before they are declared, nor unless payment is reasonably assured by past experience, guaranty, or otherwise.

120. Discount on Capital Stock.

Second paragraph--

Discount on a particular class and series of capital stock may be offset or reduced by charges to capital surplus to the extent that premiums and assessments on the particular class and series of capital stock, and net gain from reacquisition and resale of any class or series of stock, are included therein. Discount on one class or series of capital stock may not be offset or reduced by charges to capital surplus arising from premium and assessments on any other class or series of capital stock without the approval of the Commission.

Third paragraph--

Discount on capital stock may be charged to capital surplus to the extent indicated in the preceding paragraph, or it may be written off to earned surplus.

Add to Note--

The provisions of this account shall not be construed as indicating approval by the Commission of the issuance of stock at a discount.

121. Commissions and Expense on Capital Stock.

First paragraph--

This account shall include commissions and expense incurred in connection with the issuance and sale of capital stock. Records supporting the entries to this account shall be kept to show commissions and expense on each class and series of capital stock. The expense chargeable to this account shall include all such expenses not includible in account 105, "Organization."

Second paragraph--

This paragraph is stricken.

Third paragraph--

Commissions and expense relating to capital stock may be written off to earned surplus or amortized by charges to income. Credits made to this account for amortization shall be concurrently charged to account 255, "Miscellaneous amortization charges to income."

Fourth paragraph--

When an issue of capital stock, or any part thereof, is reacquired there shall be credited to this account the amount of commissions and expense on original sale, if any, applicable to such stock reacquired and concurrent charge made to income or earned surplus.

126. Unamortized Debt Discount and Expense.

Third paragraph--

Discount and expense incurred in connection with the issue and sale of funded debt shall be amortized by the consistent application of a rule by which the entire amount of discount and expense pertaining to any issue shall be amortized through such regular charges to income as will equitably distribute the balance thereof during the life of such issue.

Fourth paragraph--

When an issue of funded debt, or any part thereof, is retired prior to maturity and not in connection with a refunding operation, any remaining balance of unamortized discount and expense pertaining thereto shall be charged to earned surplus, except as the Commission shall otherwise approve or direct.

Fifth paragraph--

When an issue of funded debt, or any part thereof, is refunded and at the date of refunding there is a balance of unamortized discount and expense relating thereto, the amount of such balance together with any premium paid in retiring the debt shall be disposed of in such manner as the Commission may approve or direct.

130. Reacquired Capital Stock.

Third paragraph--

When reacquired capital stock is sold, the difference between the amount at which such stock is included in this account and the net sale price realized shall be credited or debited, as appropriate, to account 190, "Capital surplus," subject to the restriction described in the preceding paragraph.

131. Reacquired Funded Debt.

Second paragraph--

The difference between the face amount of bonds or other funded debt included in this account and the amount paid by the company for such securities, including commissions and expenses paid in connection with the reacquisition, shall be credited or debited as appropriate to account 305, "Other credits to earned surplus" or account 315, "Other debits to earned surplus" except as the Commission shall otherwise

approve or direct. Concurrently the portion of unamortized premium, discount, and expense relating to the funded debt reacquired shall be credited or debited as appropriate to account 305, "Other credits to earned surplus," or account 315, "Other debits to earned surplus," except as the Commission shall otherwise approve or direct.

Liability and Other Credit Accounts

150. Capital Stock.

New fourth paragraph--

Premium paid upon the redemption and retirement of capital stock shall be charged to earned surplus, provided, however, that such premium may be charged to capital surplus to the extent that premium on original issuance of such stock retired and gains from reacquisition and resale of the same or any other class or series of capital stock are included in capital surplus, or may be disposed of in such other manner as the Commission may approve or direct.

170. Premium on Funded Debt.

Fourth paragraph--

When an issue of funded debt, or any part thereof, is retired prior to maturity and not in connection with a refunding operation any remaining balance of premium pertaining thereto shall be credited to earned surplus, except as the Commission shall otherwise approve or direct.

Last paragraph--

When an issue of funded debt, or any part thereof, is refunded and at the date of refunding there is a balance of unamortized premium relating thereto, the amount of such balance shall be disposed of in such manner as the Commission may approve or direct.

190. Capital Surplus.

First paragraph--

This account shall include all surplus arising from sources other than those classifiable under earned surplus accounts. (Note general instruction 14.) Records supporting the entries to this account shall be kept in such manner as to disclose the nature and source thereof, and as to enable the company to furnish full particulars concerning any item.

Income Accounts

200. Dividends.

Note A.--A dividend received in stock of a paying company of the same class as the stock on which such dividend is paid shall not be treated as income. No amount shall be charged to investments or credited to income or surplus from any such dividend stock at any value at the time such dividend is received. Proceeds realized from subsequent sale

or disposal of the stock so received as a dividend or of the stock in respect of which the dividend was paid, shall be accounted for as appropriate, proper credit being given in the investment account for the proportion of the book amount applicable to the shares sold or disposed of. Any profit or loss resulting from the transaction shall be credited or debited to accounts 204, 301, or 311, as appropriate.

Note E.--A dividend received in stock of a paying company of a class other than that on which such dividend is paid may with prior approval of the Commission be treated as income. If not treated as income, the book amount at which the company carries the stock on which such dividend is declared shall be appropriately allocated between the stock previously held and the stock received as a dividend. Such allocation shall be subject to the approval of the Commission.

Notes B, C, and D become Notes C, D, and E, respectively.

240. Taxes, Other Than Income Taxes.

This account shall include provision for all taxes, applicable to the period for which the income account is stated, except income and excess profits taxes which shall be charged to account 270, "Income taxes." Taxes accrued through this account prior to their payment shall be credited to account 166, "Accrued taxes."

This account shall be kept in such manner as to show the amount of each class of taxes.

250. Interest on Funded Debt.

This account shall include the amount of interest applicable to the period for which the income account is stated on all classes and series of funded debt actually outstanding. Interest accrued through this account prior to the payment thereof shall be credited to account 163, "Accrued interest on funded debt."

270. Income Taxes. (new account)

This account shall include provision for Federal income and excess profits taxes; and for other income taxes, applicable to the period for which the income account is stated. Taxes accrued through this account prior to their payment shall be credited to account 166, "Accrued taxes."

This account shall be kept in such manner as to show the amount of each class of taxes.

(Accounts 260 and 261 have been renumbered 280 and 281, respectively.)

Earned Surplus Accounts

311. Profit From Sale of Investments.

First paragraph--

This account shall include losses sustained from the sale or disposal of investments included in investment, sinking fund, or other

special fund accounts, to the extent that such losses exceed the amount of reserves provided therefor.

312. Investments Written Down or Written Off.

First paragraph--

This account shall include such amounts as may be credited to investment, sinking fund, or other special fund accounts to write down or write off the book amount of specific investments included therein to the extent that such amounts have not been provided for in reserves.

Second paragraph--

Amounts charged to this account as well as amounts charged for the same purpose to reserves shall be credited directly to the appropriate investment or other account in which is included the book amount of the investment to which the charges relate. Charges and credits as contemplated by this account shall not be made unless they represent a definitely recognized loss. The account shall not be used to record fluctuations in the market value of securities owned; charges made to provide a reserve for this purpose shall be included in account 313, "Surplus appropriated to reserves."

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