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Recommended Citation

American Institute of Certified Public Accountants. Accounting Principles Board, "Report of the Accounting Principles Board" (1964). *Association Sections, Divisions, Boards, Teams*. 168. https://egrove.olemiss.edu/aicpa_assoc/168

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REPORT OF THE ACCOUNTING PRINCIPLES BOARD

To the Council of the American Institute
of Certified Public Accountants

The first part of this report relates to the activities of the Accounting Principles Board, the second part is a brief report of the fiscal committee of the Board, and the third part is a report of the director of the accounting research division of the Institute.

The Accounting Principles Board

The administrative committee of the Board held three meetings since October. The Board held a meeting on November 14 and 15, 1963, and will hold a two-day meeting in Boca Raton, Florida on April 30 and May 1, 1964.

The following developments have taken place since the last meeting of Council:

1. The Board unanimously approved Opinion No. 3 on "The Statement of Source and Application of Funds." The Opinion has received wide distribution and support in the financial community. The president of the New York Stock Exchange distributed copies to the presidents of listed companies and to all members of the Exchange recommending that the guide lines of the Opinion be followed in annual reports to stockholders. The Opinion is receiving wide attention by financial analysts and a committee of their national organization has held meetings with the counterpart committee and staff of the Institute. Representatives of the Institute and of the financial analysts organization have undertaken a program to persuade the publishers of financial manuals that computations of so-called "cash-flow per share" are misleading and that, if fund statements are to be presented, they should be complete both as to source and application.

2. The Board approved Opinion No. 4, which is an amendment of Opinion No. 2, on "Accounting for the 'Investment Credit.'" In view of the changes incorporated in the Revenue Act of 1964 and in recognition of the substantial authoritative support for treatment of the credit as a reduction in taxes, the Opinion states that (a) spreading the credit over the lives of the related depreciable assets, or (b) inclusion of the credit in income for the year in which the credit arises are acceptable methods of accounting.

3. The proposed Opinion on "Reporting of Leases in the Financial Statements of Lessee" was given wide exposure among business and financial entities as well as in the accounting profession. The Opinion sustains the position previously expressed in Accounting Research Bulletin No. 43, Chapter 14, but requires more extensive disclosure of lease rental requirements and sets forth more specific criteria for identification of instalment purchases in the form of leases which should be capitalized. It is expected that the Board's Opinion on this subject will be issued in the near future

4. Experience in the operation of the Accounting Principles Board for the past five years has demonstrated that it is unreasonable to expect a chairman to serve more than one three-year term. Section IIIc of the Charter Rules should be amended in this respect. Accordingly, I propose the adoption of the following resolution by Council:

Resolved that the last sentence of Section IIIc, which reads as follows - "A Chairman may serve for more than one term" - be deleted and that the following sentence be substituted therefor -

"The Chairman may not succeed himself but may be reappointed as a member of the Board."

5. Experience also has demonstrated the need for an administrative assistant to the chairman. Since this is regarded merely as a means of facilitating the performance of the chairman's duties, it has

been handled within the Board's own rules by the following additional provision:

The Chairman is authorized to designate an Administrative Assistant to serve at the pleasure of the Chairman who is not a member of the Accounting Principles Board. He shall be expected to attend all meetings of the Board and shall have the privilege of the floor at Board meetings. The Chairman may delegate to the Administrative Assistant such duties as he chooses except those which must be performed by a member of the Board. He may be chosen without regard to firm affiliation.

6. The Board believes there are definite advantages to be gained by having a wider background of experience and viewpoint continuously available in its deliberations. We have utilized non-CPA members in the roster of the project advisory committees, and the favorable experience of constructive helpfulness there has caused us to conclude that similar opportunities should be available in the membership of the Board.

The present Charter Rule in Section IIIb now reads in the pertinent part as follows:

2. Qualifications

The Board shall be composed of members of the Institute selected primarily because of their competence and interest rather than as representatives of particular groups of geographic areas.

It is proposed that the Rule be amended to read:

2. Qualifications

Board members shall be composed primarily of members of the Institute selected because of their competence and interest rather than as representatives of particular groups or geographical areas. No more than three members of the Board may be selected from nonmembers of the Institute.

I submit this change as a resolution for your approval.

7. The Council is aware that since last July, Paul Grady has been serving under a pro tem appointment as director of accounting

research. The administrative committee of the Board continued the search for a longer term candidate for this post. I am pleased to report to you that a most suitable candidate was found in the person of Reed K. Storey, the assistant director. Arrangements are concluded for Mr. Storey to become director of accounting research on the first of next September. In the meantime the administrative committee and the accounting research division are continuing the search for an assistant director. If members of Council have suggestions on this, I shall be glad to receive them.

Respectfully submitted,

Alvin R. Jennings, Chairman

April 1964