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American Institute of Accountants. Committee on Auditing Procedure

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STATEMENT ON AUDITING PROCEDURE

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Reports Following a Pooling of Interests

(Supersedes paragraphs 35 and 36 of Chapter 8
of Statements on Auditing Procedure No. 33)

1. When companies have merged or combined in accordance with the accounting concept known as a "pooling of interests" appropriate effect of the pooling should be given in the presentation of balance sheets, results of operations and other historical financial data of the continuing business for years prior to the year of pooling, as described in paragraph 5 of Opinion No. 10 of the Accounting Principles Board.¹ If prior year financial statements, presented in comparison with current year financial statements, are not restated to give appropriate recognition to a pooling of interests, the comparative financial statements are not presented on a consistent basis. In this case, the inconsistency arises not from a change in the application of an accounting principle in the current year, but from the lack of such application to prior years. Such inconsistency would require a qualification in the independent auditor's report. In addition, failure to give appropriate recognition to the pooling in comparative financial statements is a departure from an Opinion of the Accounting

¹ The Accounting Principles Board is reconsidering the entire subject of accounting for business combinations, including the concept of pooling of interests, and upon completion of this study, it is expected that an Opinion will be issued on the subject.

*Issued by the Committee on Auditing Procedure
American Institute of Certified Public Accountants*

Principles Board. Therefore, the auditor must also give appropriate consideration to the provisions of the Special Bulletin of the American Institute of Certified Public Accountants issued in October 1964 relating to disclosures of departures from Opinions of the Accounting Principles Board.

2. When single-year statements only are presented, a note to the financial statements should adequately disclose the pooling transaction and state the revenues and net earnings of the constituent companies for the preceding year on a combined basis. In such instances, the disclosure and consistency standards are met. Omission of disclosure of the pooling transaction and its effect on the preceding year would require a qualification as to the lack of disclosure and consistency in the independent auditor's report.

The statement entitled "Reports Following A Pooling of Interests" was adopted unanimously by the twenty-three members of the committee.

NOTES

Statements on Auditing Procedure present the considered opinion of the Committee on Auditing Procedure, which is the senior technical committee of the Institute designated to issue pronouncements on auditing matters. Departures from the Committee's recommendations must be justified by those who do not follow them.

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