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Reports following a pooling of interests : (supersedes Statement on auditing procedure no. 40); Statement on auditing procedure, No. 44

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STATEMENT ON AUDITING PROCEDURE

44

Reports Following a Pooling of Interests

(Supersedes Statement on Auditing Procedure No. 40)*

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 financial position, results of operations and other historical financial data of the continuing business for the year in which the combination is consummated and, in comparative financial statements, for years prior to the year of pooling, as described in Accounting Principles Board Opinion No. 16, "Business Combinations." 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

*Statement on Auditing Procedure No. 40 superseded paragraphs 35-36 of Chapter 8 of Statement on Auditing Procedure No. 33, which remain superseded by this Statement.

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

Opinion of the Accounting 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 for the year in which a combination is consummated, a note to the financial statements should adequately disclose the pooling transaction and state the revenues, extraordinary items 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-one members of the Committee on Auditing Procedure.

NOTE

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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