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**Proposed statement of position on presentation and disclosure of supplementary current value information; Presentation and disclosure of supplementary current value information; Exposure draft (American Institute of Certified Public Accountants), 1978, Jan. 27**

American Institute of Certified Public Accountants. Accounting Standards Executive Committee

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**EXPOSURE DRAFT**

**PROPOSED STATEMENT OF POSITION**

**ON**

**PRESENTATION AND DISCLOSURE OF**

**SUPPLEMENTARY CURRENT VALUE**

**INFORMATION**

**JANUARY 27, 1978**

**Issued by the Accounting Standards Executive Committee of the  
American Institute of Certified Public Accountants  
For Comment From Persons Interested in Accounting and Reporting**

**Comments should be received by March 31, 1978, and addressed to  
Paul Rosenfield, Director, Accounting Standards Division, File Ref. No. 2380  
AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036**



American Institute of Certified Public Accountants

1211 Avenue of the Americas, New York, New York 10036 (212) 575-6200

January 27, 1978

To Practice Offices of CPA Firms; Members  
of Council; Technical Committee Chairmen;  
State Society and Chapter Presidents,  
Directors, and Committee Chairmen;  
Organizations Concerned With Regulatory,  
Supervisory, or Other Public Disclosure  
of Financial Activities; Persons Who Have  
Requested Copies:

An exposure draft of a proposed statement of position entitled Presentation and Disclosure of Supplementary Current Value Information accompanies this letter.

Comments and suggestions on any aspect of the enclosed draft are sought and will be appreciated. They should be addressed to Paul Rosenfield, Director, Accounting Standards Division, File Ref. No. 2380, at the AICPA, by March 31, 1978. The Accounting Standards Executive Committee will be particularly interested in the reasoning underlying comments and suggestions.

Sincerely yours, \

Arthur R. Wyatt, Chairman  
Accounting Standards  
Executive Committee

Paul Rosenfield, Director  
Accounting Standards Division

## PROPOSED STATEMENT OF POSITION ON PRESENTATION AND DISCLOSURE OF SUPPLEMENTARY CURRENT VALUE INFORMATION

### INTRODUCTION AND BACKGROUND

1. This statement of position on Presentation and Disclosure of Supplementary Current Value Information has been issued by the accounting standards division of the American Institute of Certified Public Accountants because the subject is receiving increased attention. Although supplementary current value information is not required for presentation of financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles, a few companies are now presenting such information (in addition to that disclosed pursuant to the requirements of the Securities and Exchange Commission for certain replacement cost information) in annual reports to shareholders.

2. Bodies responsible for setting accounting standards in a number of countries are currently considering proposals for the presentation of financial information reflecting the effects of changes in specific prices, changes in the general level of prices, or both.<sup>1</sup> The term "cur-

rent value accounting" is widely used in referring to accounting that deals with the effects of specific price changes. Current value accounting should be distinguished from "general purchasing power accounting" (also called "general price-level accounting") which refers to accounting that reflects the effects of changes in the general level of prices.<sup>2</sup>

3. Various methods of current value measurement exist, including methods based on replacement costs, realizable values, and present (discounted) value of expected cash flows. In fact, agreement has not been reached as to the meaning of "current value." Furthermore, there are no generally accepted criteria for either the measurement or the disclosure of current value information for financial reporting purposes.

4. In its December, 1976, discussion memorandum entitled *An Analysis of Issues Related to Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and*

*Their Measurement*, the Financial Accounting Standards Board (FASB) discussed various measurable attributes of financial statements, including current value attributes. In that document, the FASB stated that "Proposals for change in the attribute presently measured and presented may require more specific and detailed consideration than the Discussion Memorandum provides and might well require experimentation before a pronouncement is developed." A public hearing on the issues raised in the discussion memorandum was held in August, 1977; a second hearing, concentrating on the issues of measurable attributes in financial statements, was held in January, 1978. In view of that schedule and the difficulty of the conceptual issues involved, it is likely that considerable time will elapse before the FASB completes the project.

5. The accounting standards division believes that, during the interim, guidance as to presentation and disclosure of supplementary current value information will be helpful to companies that choose to present such information. Although a few enterprises have presented supplementary current value information, the extent of the disclosure of such information has varied widely. Some enterprises have disclosed the supplementary information in a comprehensive set of financial statements while others have disclosed the information piecemeal. Limited guidance has been provided to date on the form or content of supplementary current value information.

6. The division believes that alternative methods of presenting supplementary current value in-

<sup>1</sup> Several sources of materials provide helpful background on these subjects, including, American Institute of Certified Public Accountants, *Financial Statements Restated for General Price Level Changes*, Accounting Principles Board Statement no. 3 (June, 1969); Financial Accounting Standards Board, *Financial Reporting in Units of General Purchasing Power*, exposure draft (December, 1974), and *An Analysis of Issues Related to Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement*, discussion memorandum (December, 1976); International Accounting Standards Committee, *Treatment of Changing Prices in Financial Statements: A Summary of Proposals*, discussion paper (March, 1977), and *Accounting Responses to Changing*

*Prices*, International Accounting Standard no. 6 (June, 1977); and Financial Accounting Standards Board, *Field Tests of Financial Reporting in Units of General Purchasing Power*, research report (May, 1977).

<sup>2</sup> Specific prices of individual goods and services may change more or less than, or in the opposite direction from, the general level of prices. Although specific price changes, in part, reflect increases or decreases in the general purchasing power of money, they are also caused by market factors of supply and demand which are themselves affected by a host of other economic factors, including technological change. Current value accounting and general purchasing power accounting are not alternatives; financial information dealing with changes in both specific prices and the general level of prices may be reported.

formation should be permitted until standards are established. To restrict experimentation with undue constraints on presentation would needlessly restrict the evolution of the art.<sup>3</sup> Nevertheless, reasonable constraints will tend to result in supplementary current value information that is comprehensible to users of financial statements and is presented in a manner that is not misleading.

### SCOPE OF STATEMENT

7. This statement of position provides guidance as to presentation and disclosure for enterprises that choose to issue (a) supplementary current value financial statements, either in conjunction with conventional financial statements prepared in conformity with generally accepted accounting principles or apart from the conventional financial statements or (b) piecemeal supplementary current value information in conjunction with the conventional financial statements.<sup>4</sup> It does not set forth guidance as to financial reporting in units of general purchasing power<sup>5</sup> and it is not applicable to (a) issuance of current value information to insurance companies, taxing authorities, and other regulatory authorities; (b) reporting by entities that are in liquidation or

otherwise do not qualify as going concerns; or (c) piecemeal current value information presented in a document that does not contain the conventional financial statements.

8. This statement does not attempt to resolve all of the conceptual issues that arise in the preparation of current value information. It takes no position as to whether enterprises should issue current value information and, accordingly, nothing in this statement is intended as a recommendation for enterprises to do so.<sup>6</sup>

### RECOMMENDATIONS ON PRESENTATION AND DISCLOSURE

#### **Presentation in Financial Statement Format**

9. Supplementary current value information may be presented in financial statement format. The presentation of supplementary current value information in a financial statement format implies that a comprehensive approach for measuring current values was used. Accordingly, a financial statement format should be used only when the current value information is based on a comprehensive current value measurement approach. When current value measurements are used for only selected items, a financial statement format should not be used.

10. Just as historical cost financial statements sometimes appear in a condensed format, some entities may elect to present supplementary current value financial statements in a condensed format. Such a presentation format is appropriate if (a) the condensed supplementary financial statements are labeled as "condensed" and (b) the captions used enable users to understand the nature of the items included in the condensed data.

#### **Presentation in Piecemeal Format**

11. Supplementary current value information may be presented in piecemeal format. If a piecemeal presentation is to be made of current value information, descriptive labels and other disclosures should be designed to minimize the risk that users will be misled by the information presented. For example, if replacement cost information is presented for property, plant, and equipment and replacement cost differs significantly from net realizable value, the information should be described as "replacement cost" and not as "current value" information.

12. Supplementary current value information presented in piecemeal format should be accompanied by other directly related information also presented on a current value basis. For example, if supplementary current value information is presented for property, plant, and equipment, depreciation on a current value basis should also be presented. Supplementary current value information should not be presented for only part of a financial statement caption (for example, for raw materials inventory only); thus, if current value information is presented for one part of a caption in the historical cost financial statements, it should be presented for all parts of that caption (for example, for work-in-process, finished goods, and supplies, as well as for raw materials).

#### **Information Related to Conventional Financial Information**

13. The presentation of supplementary current value information should be related to the presentation of the conventional financial information. Accordingly, if supplementary current value information is presented in a financial statement format and a complete set of conventional financial statements is also presented, the supplementary current value information should include information that presents financial position, results

<sup>3</sup>The accounting standards division's Task Force on Conceptual Framework for Accounting and Reporting is conducting experimentation with four financial accounting models that it has developed from various proposed measurement methods. Approximately twenty-five companies are participating in the experimentation program.

<sup>4</sup>The presentation of replacement cost information in response to requirements of the Securities and Exchange Commission is an example of piecemeal supplementary disclosure. This statement is not intended to modify the SEC's requirements for disclosure of certain cost information, whether included in filings with the SEC or in annual reports to shareholders.

<sup>5</sup>Accounting Principles Board Statement 3 and the FASB's December 31, 1974, exposure draft of a statement of financial accounting standards represent benchmarks for the development, presentation, and disclosure of general purchasing power information.

<sup>6</sup>It is possible that the Internal Revenue Service could construe certain presentations of supplementary current value information in financial statements by taxpayers who use the last-in, first-out (LIFO) inventory method as a violation of the Internal Revenue Code's LIFO conformity requirements.

of operations, and value changes.<sup>7</sup> If a complete set of conventional financial statements is presented and supplementary current value information is presented in a piecemeal format, the current value information should include related information on assets and liabilities, costs and revenues, and value changes. For example, if the current value of plant and equipment is disclosed, depreciation on a current value basis and the change during the year in the current values of plant and equipment should also be disclosed.

#### **Presentation in Comparative Form**

14. If the conventional financial statements are presented in comparative form, any current value information included should be presented in comparative form for the same periods covered by the conventional financial statements. The accounting standards division recognizes that it may be impractical to develop the current value information for prior periods; in such instances, it would be appropriate to present the information for the current period only. After the first reporting period, however, comparative amounts should be presented.

#### **Recognition of Tax Effects on Valuation Adjustments**

15. A significant and controversial issue concerning supplementary disclosures of current value information is whether to recognize the tax effects of differences between the current value bases of resources and obligations and their tax bases. The division believes that the future tax consequences of the tax bases of assets and liabilities are an aspect of their values. For example, a depreciable asset is more valuable to its owner if its depreciation can be deducted for income tax purposes than if that

right has already been used or if it never existed. Also, an appreciated asset carried at net realizable value whose tax basis is net realizable value is more valuable than one whose tax basis is less than that value. The valuation of an asset whose future tax deductibility is less than its current value should reflect that factor.<sup>8</sup> Accordingly, current value information should reflect potential tax effects, as discussed in paragraph 16.

16. The division recognizes that different views exist as to (a) whether the tax consequences should be reflected directly as an adjustment of the valuation of the asset or liability or presented as a separate amount on the liability or asset side of the balance sheet, (b) which tax rate should be used in estimating the tax effects, and (c) whether the tax effects should be recorded on a present value (discounted) basis. This statement does not attempt to resolve those differing views. Accordingly, presentations of supplementary current value information should disclose the amounts of the adjustments of current values to reflect tax effects, the method of determining the tax effects, and how the tax effects have been reflected in the presentation.

#### **Disclosures Relating to Current Value Information Presented**

17. The following information, at a minimum, should be an integral part of the disclosures relating to current value information:

- A statement that current value information is not required for

presentation of financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles (GAAP). Furthermore, since current value information is not intended to be a presentation in conformity with GAAP, it should be distinguished from information presented in conformity with GAAP and identified as supplementary to GAAP information.

- An identification of the assets and liabilities that are stated at current value.
- A description of the approach used in arriving at current values, including the basic assumptions on which the computations are based, the methods followed, and an identification of the extent, if any, that an outside expert (for example, an appraiser) was used in the development of the data. Generally accepted accounting principles require disclosure of accounting principles followed in circumstances in which acceptable alternatives exist. Similarly, the art of current value disclosures is not so well formulated as to preclude application of alternative methods, and accordingly, disclosure of the alternatives followed in the development of the current value information is important. For example, under a replacement cost approach, the disclosure should describe the consideration given to technological changes in productive capacity, the effects on other costs, and the extent to which direct pricing, indexing, functional pricing, and unit pricing were used. Under a realizable value approach, the disclosure should indicate whether the computations are based on a disposition in bulk quantities or in single units. Under a present (discounted) value approach, the interest rate used should be disclosed, together with the assumptions used in estimating future cash flow.

<sup>7</sup> Value changes, sometimes referred to as "holding gains and losses," are the changes during the period (either realized or unrealized) in the current value of assets and liabilities.

<sup>8</sup> Accounting Principles Board Opinion 16 comments on recording assets acquired and liabilities assumed under the purchase method as follows: "Estimated future tax effects of differences between the tax bases and amounts otherwise appropriate to assign to an asset or a liability are one of the variables in estimating fair value. Amounts assigned to identifiable assets and liabilities should, for example, recognize that the fair value of an asset to an acquirer is less than its market or appraisal value if all or a portion of the market or appraisal value is not deductible for income taxes. . . ."

- A description of changes in the approaches or methods followed that materially affect the comparability of the information with that of the preceding period.

18. In addition, other disclosures may be necessary to make

the presentation understandable to financial statement users. They include, for example, commentary on significant value changes during the period.

19. Supplementary current value information should be accompanied by cautions emphasizing the experimental nature and the sub-

jectivity and imprecision characterizing the information.

#### TRANSITION

20. This statement of position should be applied to supplementary current value information presented after June 30, 1978. Earlier application is encouraged.

**AICPA**

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