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# Accounting Research Association

## newsletter

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, 666 FIFTH AVE., NEW YORK, N.Y. 10019

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Volume I, No. 2

March 20, 1968

Scheduled for Release This Month -- A Bank Audit Guide: Audits of Banks, which was prepared by the AICPA Committee on Bank Accounting and Auditing, assisted by the Institute's Technical Services staff, is scheduled for release in March.

"Long-Awaited", says The Wall Street Journal: In its report last month of Executive V.P. Leonard Savoie's announcement of the guide's impending publication, made before the ABA's 20th National Credit Conference in Florida, The Journal hailed it as a "long-awaited" study of reforms in bank financial reporting.

What it is: Essentially, Audits of Banks establishes guidelines to be followed by CPAs in performance of bank audits. It includes financial statement presentation, accounting principles and auditing procedures -- all for the guidance of AICPA members in carrying out audits of banks.

What it does: The guide recognizes, and seeks to further, the growing awareness by bank management that reports of financial position and results of operations must provide information of interest to stockholders and prospective investors, as well as to depositors. It also provides bankers with a better understanding of the nature and scope of the CPA's audit.

Conformity with generally accepted accounting principles recommended: Singled out for special attention in the guide are certain areas which are not now believed to be in conformity. Among them are:

... the absence of a bottom line, or net income, figure, without which stockholders, prospective investors and financial analysts are not given a clear picture of a bank's operations. A net income figure will now be required.

... the treatment of gains and losses on security transactions. Such gains and losses will now have to be included in net income.

... the treatment of loan loss provisions. A reasonable provision for loan losses will be charged to current income, with any excess being treated as an appropriation of undivided profits.

Now that guidelines are provided for this improved accounting and reporting for banks, the Accounting Principles Board is expected to take the necessary action to make its Opinion No. 9 -- Reporting the Results of Operations applicable to bank financial statements.

(continued)

APB Field Experiment Tests the Effects of Price-Level Changes: Some of the effects of changes in the general price level have long been recognized in certain financial and economic statistics. For example, the Gross National Product of the United States is computed in two different ways: (1) in "current" dollars, and (2) in "constant" dollars. The constant dollar relates to the general level of prices at some previous year (such as 1958) as if the price level had subsequently remained the same. Both are needed to determine the portion of any given period's change in GNP due to changes in the price level, and the portion due to changes in the aggregate physical output of goods and services.

Some of the financial accounting problems involved in measuring the effects of changes in the general price-level were covered in Accounting Research Study No. 6, Reporting the Financial Effects of Price-Level Changes, which was prepared by the staff of the Accounting Research Division.

The usual procedure of the APB in developing an Opinion on a subject discussed in an accounting research study is to appoint a subcommittee to consider the study's findings and recommendations and to begin work on the development of an Opinion on the subject after the research study is published. Accordingly, a subcommittee of the Board has prepared a "research draft" of an Opinion on this subject.

To aid it in its deliberations on the proposed Opinion and to identify problems of implementation, the APB decided to conduct a field experiment to test the preliminary findings and recommendations in the research draft. For this purpose, several members of the Board asked selected clients to participate in the experiment. Participating companies will apply the recommended restatement techniques to their financial statements and furnish copies of the statements to the subcommittee on a confidential basis. Managements of participating companies will also furnish brief statements of the practical difficulties encountered in preparing the statements, their opinion of the suitability of price-level financial statements for inclusion in annual reports together with a brief indication of how they would explain the statements to stockholders, and any other comments and criticism of the research draft that they may have.

Information thus developed should result in a more comprehensive evaluation of the need for price-level information by corporate management, investors, and others interested in financial reporting. The field test is expected to be completed in April or May of this year.