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Earnings Per Share Top APB Agenda: New opinion on computation and presentation of earnings per share probably will require e. p. s. data to be included on face of corporate income statements. Accounting Principles Board will consider draft for general exposure at its meeting Sept. 4-6. Proposed opinion also expands and interprets major provisions of Part II of Opinion 9, which it will supersede.

Central issues considered by the subcommittee, headed by Philip Defliese, revolve around residual securities, including options and warrants -- criteria for such classification and how e. p. s. should be computed when such securities are involved. Significant points include:

... Criteria for determining the residual status of securities, options and warrants at the time of issuance and subsequent to issuance.

... Guidelines for minimizing "back and forth" changes in the classification of the same security as residual or senior. Basic approach is to set different upper and lower limits on the relationship between market and investment value for existing residual securities and those not so classified at date of issue.

... Discussion that paragraph 33 of Opinion 9 should be interpreted to mean that when residual securities enter into computation of primary e. p. s., supplemental earnings figures that do not give effect to the residual factors should not be reported. This interpretation was supported by SEC in Release 4910 on June 18.

... Consideration of the principle that material dilution of reported earnings per share arising from conversion or warrant rights is not, of itself, sufficient grounds to classify the security as residual. Value of conversion rights should be the overriding criterion. No distinction would be made between convertible securities sold for cash, purchase transaction, or poolings of interest. SEC has taken a different view in its Release 4910 which states: "In general, if at the time of issuance of a convertible security in an acquisition, the terms are such as to result in immediate material dilution to pro forma earnings per share, assuming conversion, then that security should be considered a residual security whether or not a majority of its value may be derived from its conversion rights."

... Possible statements on the computation of primary per share earnings: that the two-class computation method is inappropriate for convertible securities classified as residuals -- that an assumed rate of return on stockholders' equity will not be considered acceptable in the case of warrants and options -- and that, consistent with the present position on actual conversion, earnings per share for prior fiscal years shall not be restated to give retroactive effect to a security's change in classification from non-residual to residual.

If Board approves draft for exposure, copies should be available late Sept.

(continued)

Convertible Debt and Debt Issues With Warrants: Concurrent consideration will be given by the Board to allocation of that portion of the proceeds attributable to the conversion feature and warrants of debt issues. Such allocations were required in Opinion 10, but suspended under paragraphs 11 through 15 of Opinion 12. At issue -- whether to make allocations only for debt with warrants.

Respondents Favor Bank Compliance With Opinion 9: Comments to the exposure draft Opinion which would make Opinion 9 applicable to commercial banks (ARA Newsletter, May 3, 1968) indicate strong approval. Of the 85 replies received, 67 favor the move, 12 disagree, and six took no position. Most opposition came from banking community -- American Bankers Association, N. Y. Clearing House, Bank Administration Institute (formerly NABAC), and seven bankers. Robert Morris Associates and five bankers support proposal. Final opinion will be published this fall, if Board approves ballot draft.

Other Items Before APB: First draft of opinion on Basic Concepts and Broad Principles Underlying Financial Statements of Business Enterprises (ARA Newsletter, May 31, 1968), will be presented by subcommittee chairman Oral Luper at Sept. meeting. Board suggestions to be incorporated in later drafts.

Preliminary draft opinions on accounting changes (John Queenan, chmn.), and leases -- (reconciling positions taken in Opinions 5 and 7) to be reviewed by Board soon -- possibly Oct. Sidney Davidson is chairman of subcommittee.

New Projects Approved for Research: APB planning subcommittee has given tentative approval for following research projects: Inventory Pricing, Accounting for Depreciable Assets, Accounting for Working Capital, Asset and Liability Valuation and Periodic Income Measurement, Accounting and Financial Reporting for International Business Activities.

Study on Goodwill Available Next Month: Accounting Research Study 10, Accounting for Goodwill is now at printer for publication in Sept. Because of interrelationships between goodwill and business combinations, authors George R. Catlett and Norman O. Olsen "attempt to present a coordinated set of recommendations relating to the entire problem of accounting for business combinations," including comments on ARS 5. Principal recommendations are:

... Most business combinations should be accounted for the same as other purchases; pooling of interests accounting is therefore usually inappropriate.

... Total value of consideration given in a business combination should be accounted for in recording a purchase transaction.

... Separable resources and property rights acquired should be recorded at a fair value at date of purchase, with difference between value of consideration given and fair value being assigned to purchased goodwill.

... Amount assigned to purchased goodwill should be accounted for as a reduction of stockholders' equity, preferably an immediate direct write-off to capital surplus or retained earnings.

Comments from members of Project Advisory Committee, many of which are critical of the study, are appended. They deal with such matters as: concept of pooling of interests, motives for business combinations, justification for amortizing goodwill, cost of business acquired, nature of assets and intangibles.