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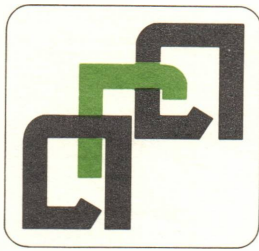


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Accounting Research Association newsletter

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

Vol. II, No. 5

July 17, 1969

AGREEMENT REACHED ON BANK REPORTING:

At a meeting in Washington on July 8, representatives of the SEC, the three federal banking regulatory authorities, the American Bankers Association and the AICPA reached the following understanding as to acceptable standards of financial reporting for commercial banks.

Securities Gains and Losses: Gains and losses on securities transactions will be recognized as an element of net income as realized. (Gains and losses may be amortized in the operating section if the amortization is reversed and realized gains and losses are reported just above net income.)

Loan Losses: A reasonable provision for loan losses will be charged to income. The regulatory authorities will establish a formula for determining a minimum provision to be charged to income. The calculation is likely to be based on a moving average of recent years' experience (ratio of losses, net of recoveries, to the average loan portfolio).

Any provision for loan losses over and above the amount charged to income will be treated as an appropriation of undivided profits.

The reserve for loan losses, whether created by charges to income or to undivided profits, will be presented as one figure between the liabilities and capital funds sections of the balance sheet. Portions of the reserve created hereafter by charges to undivided profits will not be permitted to absorb losses.

Illustration: A capsule statement of income applying these principles follows:

| | <u>Current Year</u> | <u>Preceding Year</u> |
|-------------------------------------------------------------------------------------|---------------------|-----------------------|
| Operating income | \$1,460,000 | \$1,358,000 |
| Operating expense (Note 1) | <u>855,000</u> | <u>807,000</u> |
| Income before income taxes and securities gains and losses | 605,000 | 551,000 |
| Less applicable income taxes | <u>262,000</u> | <u>236,000</u> |
| Income before securities gains and losses | 343,000 | 315,000 |
| Securities gains (losses), less related income tax effects of \$21,000 and \$20,000 | <u>63,000</u> | <u>(20,000)</u> |
| Net income | <u>\$ 406,000</u> | <u>\$ 295,000</u> |
| Net income per share (Note 2) | \$4.06 | \$2.95 |

(continued)

Notes:

- (1) Includes provision for loan losses.
- (2) Presentation of this per share amount conforms with the requirements of Opinion No. 15 of the APB. The bank may elect to present an additional per share amount for income before securities gains and losses.

Revised Guidelines to be Issued: The Federal Reserve Board, Comptroller of the Currency, and Federal Deposit Insurance Corporation are expected to issue revised uniform reporting requirements soon. After this, the AICPA committee on bank accounting and auditing is expected to issue a supplement to the guide "Audits of Banks" which will incorporate the substance of the agreement.

PRICE-LEVEL STATEMENT ISSUED BY APB: Basic recommendation of new APB statement, now being mailed to all AICPA members, is that companies include in their financial reports supplemental statements which reflect the effects of inflation or deflation on the general level of prices.

While not a formal opinion of the Board, Financial Statements Restated for General Price-Level Changes is nonetheless an official pronouncement and many companies are expected to voluntarily adopt this practice.

The statement emphasizes that these data are in addition to the conventional statements and not a replacement. Thus, the historical dollar-cost basis of accounting for assets and liabilities is retained, but these items would also be restated to show their equivalents in terms of current purchasing power.

General guidelines on the preparation and presentation of the restatements are set forth. The Gross National Product Implicit Price Deflator is suggested as the most comprehensive index for determining general price-level changes. The statement also notes that some types of assets and liabilities are affected differently by inflation and deflation. Therefore, the effects of these changes can only be determined by comprehensive restatement of the items in the financial reports and not by a simple adjustment to the conventional totals.

BOUND EDITION OF ACCOUNTING PRINCIPLES IS REVISED: The two-volume work, APB Accounting Principles, is to be updated in August by Commerce Clearing House, Inc., for the Institute. The revision incorporates APB Opinion Nos. 13 to 15 and the Statement on Financial Statements Restated for General Price-Level Changes.

The bound volumes are reprints of the looseleaf edition also published by CCH, and include Opinions and Statements of the APB, Accounting Research Bulletins, Accounting Terminology Bulletins, and the Special Bulletin distributed to AICPA members in October 1964.

Volume One contains the pronouncements, arranged by topic, which are in effect as of August 1, 1969. Volume Two reprints the full texts of ARB Nos. 43-51, Accounting Terminology Bulletin Nos. 1-4 and all Opinions and Statements to date. Price to ARA members is \$8.