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newsletter

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

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APB MOVING AHEAD ON BUSINESS COMBINATIONS

At its meeting on September 10-13, the Accounting Principles Board reviewed a draft Opinion on business combinations, which, pending revisions to be considered in October, should be ready for "exposure" by early November.

While final action will not be taken until the results of the exposure process have been reviewed, the consensus of the Board members leans toward the complete elimination of "pooling of interests" in accounting for business combinations and the rejection of the "new entity" concept. The draft Opinion is expected to include the following points:

Purchases

1. An acquisition of the net assets or ownership interests of one or more corporations by another corporation constitutes a purchase.

2. When net assets acquired in a purchase transaction include an intangible asset which cannot be separately identified by name, the intangible asset is presumed to be "purchased goodwill." The cost assigned to purchased goodwill should be amortized by systematic charges in the income statement over the estimated remaining period of usefulness but in no case to exceed forty years.

3. "Negative goodwill" should be allocated to the non-cash assets acquired where appropriate, and, consequently, should rarely be recorded.

4. Footnote disclosure of a purchase transaction occurring during a fiscal year should include the results of the current year on a pro forma basis after appropriate adjustments for taxes, interest expense, depreciation of assets on a revalued basis, amortization of goodwill arising from the purchase transaction, etc. When comparative information is given in the primary financial statements, then supplemental information should be given in the footnotes, as described above, for one previous fiscal year as well. Supplemental information should include at least sales, income before extraordinary items and net income.

Intangible Assets

1. Goodwill arising in a purchase transaction should be amortized over the period expected to be benefited but in no case longer than forty years.

2. Intangible assets other than goodwill are not likely to have a value in perpetuity even though expenditures may be made to maintain their value, and accordingly, they, too, should be amortized by systematic charges to income over the period estimated to be benefited but in no case longer than forty years.

(continued...)

3. The required amortization described in the first two paragraphs need not be applied to purchased goodwill or other intangible assets acquired before the effective date of the Opinion.

In addition, on the grounds that one of the constituents in every business combination can be identified as the acquiring company, there are no circumstances in which a new business enterprise should be considered to have been created. Therefore, no recognition will be given to "new entity" concepts.

A symposium for the 16 organizations which had reviewed a point outline will be held in New York on October 22 to discuss the revised draft.

TWO AUDITING STATEMENTS TO BE PUBLISHED SOON:

On September 19 the Committee on Auditing Procedure approved for publication SAP No. 41, Subsequent Discovery of Facts Existing at the Date of Auditor's Report (ARA Newsletter, June 4, 1969). Copies will be available in mid-October.

Committee is now considering ballot draft of SAP No. 42 Reporting When a CPA is Not Independent, prepared by subcommittee headed by Charles Chazen.

Purpose of the new statement is to require a special disclaimer of opinion when CPA lacks independence irrespective of the extent of auditing services rendered to a client. Basic provision calls for disclosure that the CPA is not independent and has not performed an examination in conformance with generally accepted auditing standards. This disclaimer may accompany the financial statements or appear on the face of the statements. If the disclaimer accompanies the statements, each page of the financial statements must include a reference to it.

The new statement should clarify the circumstances under which the provisions in SAP No. 38 affecting unaudited statements would apply, and when the new standards must be observed because of the lack of independence.

Publication, pending approval of the ballot draft, is expected in November.

NEW MAS STATEMENT NOW AVAILABLE:

Within the next few days AICPA members will receive copies of MAS Statement No. 3 Role in Management Advisory Services, dealing with criteria under which a CPA's services "will not impair his objectivity in his other relationships with his client."

The statement is concerned primarily with three types of engagements: Full scope engagements under which the CPA makes a factual examination, presents recommendations, which, upon approval of management are implemented by the CPA; Limited engagements where the CPA, upon the completion of his research, recommends alternative courses of action to management; and informal advice based on general knowledge, which does not involve extensive study of the situation.