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newsletter

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

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HIGHLIGHTS OF APB MEETING

Accounting for Business Combinations: At its October 23-25 meeting, following a symposium on business combinations attended by 14 organizations, the Accounting Principles Board affirmed its tentative position that business combinations should be accounted for as acquisitions and that pooling of interests accounting should be eliminated. (ARA Newsletter, Sept. 29, 1969)

The Board, however, is exploring a proposal that goodwill would not be recognized in acquisitions involving common stock only, because of the difficulty of determining a reliable total cost based on the market price of the common stock issued. Under the proposal the acquired tangible and identifiable intangible assets would be stated at current fair values, not at their cost to the acquired company.

Goodwill would be recognized in all other business combinations, that is those involving cash, debt, preferred stock, contingent issuance of common stock or warrants, whether or not in combination with common stock. Goodwill would be amortized by systematic charges to income over its estimated useful life, not to exceed 40 years.

The Board will consider a revised draft incorporating this proposal at its meeting December 3-6, for possible exposure.

Equity Accounting: Board authorized committee headed by George Catlett to prepare a draft on Equity Method of Accounting for Long Term Investments in Common Stocks as basis for discussion with other organizations at a symposium to be held on November 25. Purpose of proposed Opinion is to clarify accounting for investments in unconsolidated subsidiaries and other long term investments in common stock which amount to 10% to 50% of the total.

Major points to be included are:

...Should a company report its share of net income or the changes in the underlying net assets attributable to its investment? These changes would be affected, for example, by new issues of stock, conversions, exercise of options or warrants, or purchases and sales of treasury stock.

...Should percentage of ownership be determined exclusively by common share holdings or should common stock equivalents be included?

...Should intercompany gains and losses be eliminated when the company in which the investment is held is not a subsidiary?

(continued)

...Should a "two line" approach be adopted whereby the income and related tax effect would be reported separately?

After review of symposium results, Board may approve draft for exposure at its December meeting.

Accounting Changes: A draft of proposed Opinion on treatment of accounting changes was discussed. At issue is whether changes should be reflected retroactively, currently by extraordinary items, or prospectively.

STUDY ON EXTRACTIVE INDUSTRIES TO BE ISSUED THIS MONTH

Accounting Research Study No. 11, Financial Reporting In the Extractive Industries is at the printer and should be available by the end of November.

Written by Robert E. Field, a partner in the New York office of Price Waterhouse & Co., the study concludes that existing accounting and reporting practices are inadequate and makes a series of recommendations "which, if adopted would narrow alternative accounting practices in the extractive industries to those which differ only because the essential circumstances differ."

Recommendations are made in these areas: the capital/expense decision; disposition of capitalized costs; accounting for revenue, special conveyances, and joint operations; accounting for federal income taxes; presentation and disclosure practices.

Among the significant recommendations are:

...The individual mineral deposit should be chosen as the cost center by which to identify costs with specific minerals-in-place.

...Expenditures for prospecting costs, indirect acquisition costs, and most carrying costs should be charged to expense when incurred as a part of the current cost of exploration.

...Capitalized costs associated with minerals-in-place should be amortized ratably as the related minerals are extracted, but may be amortized on the basis of time when time is the controlling factor in consumption of economic usefulness.

...Mineral reserves and operating activities should be sufficiently disclosed to facilitate evaluation of effort and result.

An Accounting Research Study is not an official Institute statement, but the conclusions of the author and reactions to them will be considered by an APB committee headed by Joseph Cummings of Peat, Marwick, Mitchell & Co. in the development of a possible Opinion on this subject.

Excerpts from the summary chapter appear in the November issue of The Journal of Accountancy. The complete study is priced at $3.50, but ARA members will receive a 40% discount.