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## Accounting Research Association Newsletter, Volume II, Number 9, December 15,, 1969

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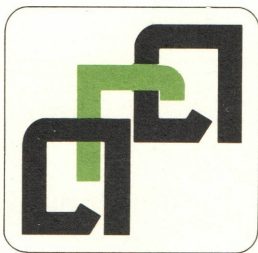
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# Accounting Research Association

## newsletter

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

Vol. II, No. 9

December 15, 1969

### APB TAKES ACTION ON SEVERAL FRONTS AT DECEMBER MEETING

#### Accounting for Business Combinations

The Accounting Principles Board reached a tentative position that either the purchase or the pooling of interests method should be used in accounting for business combinations although not as alternatives.

Most business combinations would be accounted for as purchases. The pooling method would be retained on a restricted basis, applying only to common stock transactions meeting pooling criteria. One criterion would be that neither party to the merger is more than three times as large as the other.

The Board's proposals for accounting for goodwill, recognized under the purchase method, would require a systematic charge to income over its estimated useful life, not to exceed 40 years.

The Board will review a new draft Opinion at its next meeting on January 21-24 and expects to publicly expose a draft Opinion shortly after.

Equity Accounting: Board reviewed a draft of a proposed Opinion on accounting for long-term investments in common stocks. (See ARA Newsletter November 3, 1969) The tentative position set forth in the draft Opinion calls for the use of the equity method of accounting for investments in common stocks of subsidiaries, fifty percent-owned companies, and corporate joint ventures.

Under the proposal, net income for the period and retained earnings at the end of the period would be the same whether reported under the equity method of accounting or on a consolidated basis. The difference between consolidation and the equity method lies in the details reported in the financial statements. However, the equity method of accounting is generally not a valid substitute for consolidation.

For most other long-term investments in common stock not covered by the equity method, the draft Opinion proposes use of the "investment method." Under the investment method an investor, holding ten percent or more of the voting shares outstanding, would recognize as income (and as an increase in the investment account) his proportionate share of earnings of the issuing corporation.

A revised draft Opinion is being prepared for consideration at the Board's January meeting. Public exposure of the Board's views on this matter is expected in early 1970.

(continued...)

Accounting Changes: The APB also discussed the treatment to be given to changes in the application of accounting principles and methods. The direction of the Board's current discussion favors retroactive restatement of financial data for past periods affected and preparation of current year's financial statements on the new basis. A draft Opinion which is being prepared for further Board discussion and for possible public exposure in early 1970 will probably assert that accounting changes should only be made if it is demonstrable that the new method would provide more meaningful results.

#### INTERIM REPORT ON COST CONCEPTS NOW AVAILABLE

The initial report on the Institute's research project, Cost Concepts and Implementation Criteria, written by a team of Stanford University professors has just been published.

It involves basic research into the nature of costs with particular emphasis on implementation criteria which can be used as general guidelines in measuring and predicting all costs, including those connected with government procurement. The study will include the development of models which can be empirically tested.

The purpose of the interim report is to alert interested parties to the research method which has been developed to provide criteria that can be used to select the appropriate cost concept and measurement technique for any given use.

The basis for the research method is that cost information alternatives should be evaluated in terms of their effect on the payoff from the sequence of decisions in which the cost information is used. For example, two alternative concepts would be rated equally effective if both resulted in the same decision payoff, while one would be rated higher than the other if it resulted in a higher decision payoff.

Single copies of the report are available free to ARA members upon request to the order department. (Additional copies for ARA members are \$1.80 each -- a 40% discount from the \$3.00 list price.)

A project advisory committee has been appointed to consult with the research team. Comments or questions about the study should be directed to the project coordinator, Professor Robert K. Jaedicke, Stanford University, Graduate School of Business, Stanford, California.

It is expected that the final report will be published in April 1971.