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TENTATIVE ACTION ON SEVERAL ITEMS TAKEN BY APB

Highlighting the September meeting of the Accounting Principles Board was an extensive discussion of the draft of proposed Statement #4, Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises. Pending revisions suggested at the meeting, it is expected that the Board will consider a ballot draft at its next meeting, October 21-23.

The purpose of the statement is two-fold; to provide a better understanding of the broad fundamentals of financial accounting, and to provide a basis for guiding the future development of financial accounting.

Although it does not propose solutions to financial accounting problems, it is intended to provide a framework within which such problems may be solved. To achieve these purposes the statement covers three basic areas:

- It discusses the nature of financial accounting, the environmental forces that influence it, and the potential and limitations of financial accounting.

- It sets forth the objectives of financial accounting and financial statements.

- It identifies and describes present generally accepted accounting principles.

Equity Accounting: In a proposed opinion on long-term investments in common stocks the Board would extend the use of the equity method of accounting described in Opinion No. 10. It would apply to 50%-owned companies, corporate joint ventures, foreign subsidiaries, parent-company-only statements presented as the primary statements to stockholders, and certain investments below fifty percent in which a controlling interest is presumed.

It would be presumed for this purpose that a controlling interest is held whenever the investment in a company is 25 percent or more of its common stock. The burden would be upon the investor to establish that this is not the case. An investment of less than 25 percent would be presumed to be non-controlling, unless control could be demonstrated. A draft of these proposals will be considered by the Board at its October meeting.

Equity accounting for long-term investments in common stocks is also under active consideration by the chartered accountant Institutes in the United Kingdom and Canada. This subject is considered to be a likely starting point for international cooperation in developing "common positions on accounting problems." Such cooperation had been proposed by the AICPA at a meeting of the Accountants' International Study Group and recently endorsed by the Institute of Chartered Accountants in England and Wales.

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Imputing Interest on Long-Term Receivables and Payables: The Board reached a tentative consensus that in those cases where a long-term receivable or payable bears interest which is clearly below a reasonable rate at the time of the transaction, or is non-interest bearing, it should be discounted at an appropriate rate. The objective is to reflect the substance of these transactions by reporting the receivable or payable at an appropriate principal amount and reporting interest income or expense at amounts determined by applying a realistic interest rate.

Marketable Securities: It was tentatively agreed that investments in readily marketable stocks which are carried as current assets should be accounted for at market value rather than at cost, with unrealized appreciation or depreciation of value included in net income. The Board will give high priority to the development of an opinion on this subject and to further study of the broader area of accounting for investments.

AUDITING PROCEDURE COMMITTEE TO PUBLISH THREE SAPs

SAP #43, Confirmation of Receivables and Observations of Inventories is expected to be distributed to the AICPA membership at the end of the month.

This statement provides additional guidelines for the auditor and modifies certain existing reporting requirements. Among other things, when it is impossible or impracticable for the auditor to confirm receivables or observe the taking of physical inventories, he will no longer be required to disclose the omission of these procedures in the scope paragraph, if he has satisfied himself by other means. Also, the statement requires follow-up on significant non-responses to positive confirmation requests.

An SAP on Article 5A companies is expected to be published in November. The draft statement requires disclosure that the company is in the developmental stage and that unrecovered costs are therefore presented without regard to their recoverability.

An exposure draft of a proposed statement on comfort letters is being mailed to state societies, their auditing committees and AICPA Council. While the concept of "negative assurance" reporting for comfort letters is continued in the draft, the proposed statement provides more definitive reporting guidelines and makes it clear that the underwriter is responsible for the adequacy of the procedures to be followed by the auditor. Also, the concept of "material adverse changes" is discarded in favor of factual reporting of decreases in specified financial statement items.

AUDIT RESEARCH STUDIES

As part of the program in audit research, a series of monographs will be published by the Institute's technical services division. These monographs are designed to identify audit problem areas and to summarize background material as a basis for developing formal pronouncements on audit topics. The first study, Audit Opinion Criteria is expected to be published next spring.