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

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STATEMENT ON FUNDAMENTALS APPROVED BY APB

At its October 21-23 meeting the Accounting Principles Board voted to issue Statement No. 4, Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises (See ARA Newsletter, Sept. 17, 1970). Copies will be distributed to all AICPA members in late November.

The statement provides broad definitions of generally accepted accounting principles, defines the objectives of financial statements, and sets forth the present concepts which underlie financial reports. The new statement makes it easier to pinpoint more clearly deficiencies in financial reporting and provides a basis for future Opinions on specific issues.

LONG-TERM INVESTMENTS

At its December meeting, the Board will consider a revised draft which would extend use of the equity accounting method described in Opinion No. 10, which now covers only unconsolidated domestic subsidiaries in consolidated financial statements. The new draft would apply also to parent-company-only statements which are presented as the primary statements to stockholders. The draft would extend use of the equity accounting method to investments in foreign subsidiaries, 50 percent owned companies, corporate joint ventures, and common stock holdings of 20 percent or more. Application of equity accounting to the last type of investment is based on the concept that the investment is substantial enough to influence a company's policy and not on the concept of presumed control, which was the previous tentative position of the Board. (See ARA Newsletter, Sept. 17, 1970).

The new draft will propose that holdings of marketable common stock of less than 20 percent should be reported at market value rather than at cost. Changes in market value of marketable common stocks would be set forth currently as a separate item in the income statement. The Board has deferred consideration of the accounting to be followed by insurance companies for investments they hold in marketable equity securities.

The Board also has under discussion a proposal that investments in bonds and preferred stock be accounted for at market value.

REPORTING OF ACCOUNTING CHANGES

As previously reported (ARA Newsletter, June 29, 1970) the Board has been considering an alternative to its original exposure draft on accounting changes, which would have required retroactive restatement for all periods affected by the change. The Board now has tentatively approved the alternative which calls

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for a cumulative "extraordinary item" treatment for the year in which the change took place. A revised draft which will be considered in December also will propose that when a different method of depreciation is used for newly acquired assets, it will not be necessary to apply this method to the undepreciated portion of older assets of a similar class. If, however, the new method is used for the older assets, the "extraordinary item" treatment must be used for the "catch up." If the Board approves the revised draft, it will be sent out for exposure.

DISCOUNT AND PREMIUM

The Board will also consider at its December meeting a draft Opinion for imputing a realistic interest rate to long-term receivables and payables which would appropriately reflect the substance of transactions where the interest called for at the time of the transaction is clearly below a reasonable rate.

OTHER ACTIONS AUTHORIZED BY THE BOARD

Source and Application of Funds Statement: At the request of the APB Planning Committee, the Board agreed to consider at its next meeting a draft Opinion which would state that the inclusion of a funds statement in financial reports is necessary for fair presentation.

Such a draft would therefore require that a funds statement become a part of the financial statements and be covered by the auditor's report.

If approved, the Opinion would modify Opinion No. 3, which recommended that the data be included as supplemental information and stated that it was optional as to whether the auditor should cover this material in his report.

Accounting for Cash Retirements of Convertible Debt: Because questions have arisen regarding the propriety of recognizing gains or losses on the retirement of convertible debt for cash, the Board authorized the drafting of a clarifying Opinion. In keeping with Opinion 14, which holds that debt and the conversion options are inseparable, the draft Opinion will propose that the difference between carrying value and the cash redemption price should be reflected in income immediately.

FILM INDUSTRY POSITION PAPER

The Institute's committee on accounting in the entertainment industries has released for comment an exposure draft on "Accounting for Income from Films Licensed to Television."

The draft discusses different methods of recognizing income from the licensing of films to television and recommends use of the "telecast" method, under which income is recognized at the time each film is shown. The guidelines recommended by the committee give recognition to the following features:

- Income from a film is derived basically from showing it to an an audience.
- Films in a package are seldom of equal value.
- Original telecasts are more valuable than reruns.

Copies of the exposure draft, on which comments are due by December 4, are available to ARA members upon request.