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Accounting Research Association

newsletter

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

Vol. IV, No. 3

March 17, 1971

TWO PROPOSED OPINIONS APPROVED FOR APB BALLOT

At its March meeting the Accounting Principles Board decided to submit for ballot the proposed Opinions on the use of the equity method of accounting for long-term common stock investments in another company and the presentation of a statement of changes in financial position as an integral part of corporate financial statements. (See ARA Newsletter, Dec. 16, 1970)

If as expected, the necessary two-thirds favorable vote will be achieved, final Opinions will be issued in April.

Equity Method: The proposed Opinion would require a company to include in its current income its proportionate share of income or loss from common stock in other companies where significant influence can be exercised over financial and operating policy. The proposal considers that, in the absence of evidence to the contrary, the ability to exercise significant influence is present for investments of 20% or more of the voting stock and is absent for investments of less than 20%. The effective date would be for periods beginning after December 31, 1971, but earlier compliance would be encouraged with the expectation that the method could be used in first quarter reports.

Changes in Financial Position: For fiscal periods beginning after June 1, 1971, the proposed Opinion would require the disclosure of cash or working capital generated from operations and changes in financial position arising from debt or equity financing and investment in production facilities. This had been recommended previously as supplemental information under Opinion No. 3 on The Statement of Source and Application of Funds.

RESIDUAL VALUE OF LEASED PROPERTY

The Board is exploring a proposal that residual value should be a key element in determining whether a lease should be accounted for, by a lessor, under the financing or operating method. This involves the concept that if the residual value is insignificant at the expiration of the lease, the lessor has in effect made a sale and the lessee should be required to adopt some form of capitalization. The lessor should not be permitted to use the financing method if the residual value of the property is significant.

(continued)

HEARING ON MARKETABLE SECURITIES

A description of the issues and a procedural memorandum are now available to all interested persons who wish to participate in the public hearing on marketable equity securities to be held in New York, May 25-26. (See ARA Newsletter, Jan. 27, 1971)

At issue is whether investments in the voting stock of another company should be accounted for at current market value or at historical cost. Also under consideration are several methods of accounting for gains and losses resulting from changes in market value. Non-profit organizations, and insurance companies, broker-dealers, investment companies and pension funds may be affected by any Opinion arising from the hearings and subsequent deliberations by the APB.

The hearing will not be concerned with investments in consolidated subsidiaries or investments accounted for by the equity method. The latter will be covered in an Opinion on The Equity Method of Accounting for Investments in Common Stock soon to be issued by the Board. (See page 1)

Any one wishing to attend, should advise Richard Lytle, APB Administrative Director, at the Institute office by April 10, at which time the material will be sent. In order for consideration to be given to the various views, written statements will be expected by May 10.

MATERIAL AVAILABLE FROM APB

Reporting by Diversified Companies: A discussion outline has been prepared by the APB's committee on diversified companies as a guide for those groups who may wish to submit a position paper on the subject. Such papers and answers to specific questions posed in the outline should be submitted to the committee by May 17.

Accounting for Leases by Lessees: A questionnaire prepared for discussion at the APB meeting has been sent to participating organizations for their information. It deals primarily with how leases, if capitalized, should be amortized in the income statement.

These organizations also received a summary, prepared for the Board, of views expressed by several of these groups in response to an earlier discussion outline.

The material on diversified companies and accounting for leases is available to ARA members, upon request, from the Board's Administrative Director.