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

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APB TO CONSIDER PROBLEMS ARISING UNDER BUSINESS COMBINATIONS OPINION

The Board is considering possible amendments or interpretations of Opinion No. 16 to clarify its intended application. Proposals are as follows:

- As the Opinion was not intended to be retroactive in its effect, subsidiaries with a significant minority interest at the effective date of the Opinion (October 31, 1970) would be exempted from the condition of paragraph 46a. Such subsidiaries could therefore enter into a business combination to be accounted for as a pooling of interests assuming the other criteria are met.

- Restrictions on pooling by a successor company, described in paragraph 46a, would not apply if it became a successor in a transaction accounted for by the purchase method.

- Paragraph 46a would also be clarified to permit any subsidiary which distributes voting common stock of its parent corporation to effect a business combination accounted for as a pooling of interests as long as the parent corporation would have met all the other conditions had it issued its stock directly to effect the combination. Paragraph 46a now states that this can be done only with respect to wholly-owned subsidiaries.

- Disclosure of the financial effects of a combination consummated after the balance sheet date, but before financial statements are issued, need not be confined to the notes, but could be presented otherwise as supplemental information.

- In order to clarify the intent of paragraphs 47c and 47d, a pooling would not be precluded if treasury stock were acquired earlier than two years before initiation of the combination or if treasury stock acquired within two years of initiation of the combination were sold, reserved for stock options, compensation plans, etc., or issued in combinations accounted for as purchases.

OTHER ACTIONS AT APRIL MEETING

Two Class Method of Computing Earnings Per Share: It was agreed that an unofficial interpretation of APB Opinion No. 15 should be prepared which would state that the two class method of computing primary earnings per share is appropriate for enterprises who elect, under the Internal Revenue Code, to pay dividends equal to 90% or more of earnings. This would apply specifically to real estate investment trusts.

Accounting for Leases: An APB committee is considering a proposal that where the term of a lease and the life of the property are approximately the same, the lease should be considered a financing lease which should be capitalized by the lessee.

(continued)

A discussion memorandum on the application of the financing method to lessors (See ARA Newsletter, March 17, 1971) is being distributed to participating organizations. It contains case illustrations and suggests possible criteria for use of this method. Comments are due June 1 and copies are available from the Board's Administrative Director at the Institute offices.

Diversified Companies: Tentative agreement was reached to proceed with an Opinion which would require the presentation of financial data on separate lines of business within a company. The committee will develop recommendations on the nature of the disclosures to be considered.

TWO ACCOUNTING STUDY GROUPS APPOINTED

Former Securities and Exchange Commissioner Francis M. Wheat and Robert M. Trueblood, AICPA past president, have been named to head two study groups to examine methods for improving corporate financial reporting. (See ARA Newsletter, Jan. 13, 1971.)

The group headed by Mr. Wheat, partner in the law firm of Gibson, Dunn & Crutcher, Los Angeles, will study the operations of the Accounting Principles Board and make recommendations on how future accounting principles should be established. This group is expected to submit its report next fall. Mr. Trueblood will direct a study of the objectives of corporate financial statements. Recommendations are expected in 18 months.

Members of the Wheat group are: Roger B. Smith, vice president-finance, General Motors Corporation; Thomas Pryor, partner, White Weld & Co.; David Solomons, chairman of the Accounting Department, Wharton School of Finance and Commerce, University of Pennsylvania; John C. Biegler, CPA, senior partner, Price Waterhouse & Co.; Wallace E. Olson, CPA, executive partner, Alexander Grant & Company; Arnold I. Levine, CPA, national executive partner - management, J. K. Lasser & Company.

The Trueblood group consists of: C. Reed Parker, vice president, Duff, Anderson & Clark, Inc., and president, Financial Analysts Federation; Ezra Solomon, professor of finance, Stanford University School of Business; Sidney Davidson, CPA, Dean, University of Chicago Graduate School of Business; James Don Edwards, CPA, chairman of the Department of Accounting and Financial Administration, Michigan State University; Frank T. Weston, CPA, partner, Arthur Young & Company and member of APB; Oscar S. Gellein, CPA, partner, Haskins & Sells and chairman of the AICPA's Committee on SEC and Stock Exchanges; Andrew J. Reinhart, CPA, vice president, The Singer Company.

TWO STATEMENTS ON AUDITING PROCEDURE RELEASED FOR EXPOSURE

Comments on the exposure draft of Piecemeal Opinions are due by May 7 and those on Subsequent Events by May 12. Copies of the drafts may be obtained from the Institute's Technical Services Division. Comments on these drafts as well as those on Reliance on Other Auditors will be reviewed by the committee on auditing procedure at its May 18 meeting and consideration given to possible ballot drafts.

HOSPITAL AUDIT GUIDE

Subcommittee will review exposure results of Hospital Audit Guide at April 26 meeting for possible publication in late summer, pending approval of the chairmen of the APB and committee on auditing procedure. At issue is proposal to report gifts in the income statement. Industry holds that gifts are additions to capital.