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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. 6

July 2, 1971

PROPOSED OPINION ON ACCOUNTING CHANGES

At its June meeting the APB discussed at length the proposed Opinion on accounting changes and possible modifications of it. A revised draft will be prepared for further consideration and possible final action at the July 28-30 meeting.

The proposed Opinion would be effective for fiscal years beginning after June 30, 1971.

NEW PUBLIC HEARINGS PLANNED

Following the success of the recent open hearing on marketable equity securities (See ARA Newsletter, May 12, 1971), during which 22 representatives from industry, associations and other groups gave oral testimony reflecting a variety of views, the APB has scheduled two more hearings on subjects now under consideration.

The first, to be held in New York on September 30 and October 1, will deal with accounting for leases by both lessees and lessors with the aim of amending Opinions 5 and 7. The basic issue is to develop suitable criteria for defining a financing lease to determine the circumstances under which lessees should capitalize leases and lessors should treat them as sales. A discussion memorandum should be available by the end of July. Written and oral testimony will be accepted from any interested party.

Accounting and reporting for extractive industries will be the subject of the second hearing scheduled for December 2-3, also in New York.

MATERIALS AVAILABLE FROM ADMINISTRATIVE DIRECTOR'S OFFICE

The transcript of the marketable securities hearing will be duplicated within the next few weeks and copies will be available at cost. It consists of some 350 pages of oral presentation supplemented by the written statements submitted in advance of the hearing.

Point outlines of possible Opinions on diversified companies and on accounting for leases by lessees have been distributed to various organizations and are available upon request. Informal comments are due by July 23.

It is expected that an exposure draft on diversified companies will be issued following the Board's September meeting and the one on leases after the public hearing.

(continued)

BROKER-DEALER AUDIT GUIDE APPROVED FOR EXPOSURE

Copies of the exposure draft on Audits of Brokers and Dealers in Securities will be available from the Technical Services Division in mid-July and comments will be due in mid-September.

A key element in the guide is the manner in which securities owned should be reflected in financial statements. It proposes the following:

- Marketable trading and investment securities should be valued at current market value.
- Not-readily-marketable trading and investment securities should be valued at fair value as determined by the brokerage concern's management.
- An investment which meets the appropriate requirements of Accounting Principles Board Opinion No. 18 should be valued on the equity method.
- The increase or decrease in unrealized appreciation or depreciation resulting from the foregoing treatment should be included in the income statement, and with respect to corporations, reflected in earnings per share.
- Difference between accounting and tax treatment will, in the case of corporations, require appropriate tax allocation.

AUDITS OF LIFE INSURANCE COMPANIES

Publication of the guide has been postponed to give the committee an opportunity to:

- Resolve the five elements excluded from the exposure draft. These are: applicability to mutual companies, deferred taxes on addition to policy holder reserves, valuation of marketable securities, accounting for annuity contracts, and format of financial statements.
- Revise certain sections of Chapter VII, Principles of Accounting and Financial Reporting. Specifically accounting under the "natural reserve" concept will include certain restrictions as to reserve assumptions. No significant changes in basic concepts are contemplated.

ACCOUNTING FOR LAND DEVELOPMENT COMPANIES

Pending review by the APB chairman, distribution of an exposure draft of a position paper is expected early in August. Copies will be available from the Technical Services Division.

The draft proposes that sales be recorded when experience indicates 85% of the contracts will pay out and at least 5% of a contract's principal has been collected. Discounting receivables is proposed on a gross contract or on net cash flow basis, whichever provides the higher yield. Guidelines are presented for selecting the appropriate rate.