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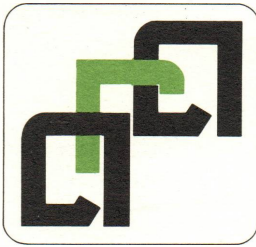


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Accounting Research Association newsletter

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

Vol. IV, No. 9

September 20, 1971

HIGHLIGHTS OF SEPTEMBER APB MEETING

Interest on Receivables and Payables: By unanimous vote the Board approved publication of Opinion No. 21 (See ARA Newsletter, Aug. 4, 1971) which should be available by the end of September. The Opinion requires the imputation of a realistic interest rate to long-term receivables and payables which would appropriately reflect the substance of transactions where the notes nominally bear no interest or an interest rate clearly below a reasonable rate.

Equity Securities: The Board reviewed a draft of a proposed Opinion on investments in equity securities, but deferred action on possible exposure until its next meeting (October 20-22), pending further discussion with insurance industry representatives. The draft would require equity securities not accounted for under Opinion No. 18 to be carried at fair value, which in most cases would be market value, with change in value and related income tax effect reported in net income.

Extractive Industries: The Board decided not to deal separately with full-cost accounting in the oil and gas industry, but has scheduled a public hearing on this and closely related subjects in New York on November 22-23 instead of the previously reported dates. The hearing will deal principally with these issues in the oil and gas industry: Capitalizing or expensing of exploration and development expenditures; and appropriate cost centers for accumulation of these expenditures.

Allocation of federal income taxes will be considered at a later date, as will accounting and reporting matters in hard mineral industries. Background material for the hearing will be available within a few weeks from Richard Lytle, APB Administrative Director, at the Institute's office.

Income Taxes: The Board will consider for possible exposure, following its October meeting, a draft Opinion dealing with certain areas excluded from Opinion No. 11, as set forth in paragraph 38.

The draft will state that undistributed earnings of subsidiaries, general reserves of savings and loan associations, and policyholders' surplus of stock life insurance companies would not ordinarily call for tax allocation. Earnings taken up under the equity method (APB Opinion No. 18) will be considered a timing difference. As such, the provisions of Opinion No. 11 would apply. The Board is continuing to defer any conclusion as to deposits in statutory reserve funds by United States steamship companies pending issuance of regulations interpreting the Merchant Marine Act of 1970.

Disclosure of Accounting Policies: An APB committee has been authorized to draft an Opinion on accounting policies. The draft Opinion tentatively would require specific identification and description of all material accounting principles and methods that involve selection from among alternatives and/or those that are peculiar to a given industry.

(continued)

ACCOUNTING FOR LEASES

An interpretation of those paragraphs of Opinion No. 7 dealing with the determination by lessors of whether to use the financing or operating method is available from the APB Administrative office. It reads in part as follows:

"When there are no significant uncertainties as discussed in this Accounting Interpretation, the lessor should account for the lease under the financing method if the present value (excluding any residual or salvage value) of the required payments under the lease (excluding any renewal or purchase option) during the fixed, non-cancellable term is equal to or greater than the selling price for an outright sale or the fair value (either of which may be less than cost) of the property.

"When there are no significant uncertainties as discussed in this Accounting Interpretation and the selling price or the fair value of the property cannot be satisfactorily determined, the financing method should be followed if the fixed, non-cancellable term of the lease (excluding any renewal option) is substantially equal to the estimated useful life of the property. This test cannot be met (a) by estimating a useful life substantially equal to the non-cancellable term if this is unrealistic or (b) if a material contingent residual interest is retained in the property.

"When a leasing transaction is accounted for by the financing method and a sale is recorded, the cost of the property (not reduced by salvage or residual value) and the estimated future costs should be charged against income in the period of the sale. In some cases, this will result in a loss on the sale."

INTERPRETATION OF OPINION NO. 16-CORRECTION

ARA Newsletter dated Aug. 4, 1971 announced that an interpretation of paragraph 46a would be issued concerning the use of pooling of interests accounting by a subsidiary that had a minority interest of 20 per cent or more on Oct. 31, 1971. The date is incorrect. It should have read Oct. 31, 1970.

EXPOSURE DRAFT ISSUED ON INTERNAL CONTROL REPORTS

Comments on a proposed Statement on Auditing Procedure, "Reports on Internal Control", are due by October 18.

Single copies have been mailed to all firms represented in the AICPA membership, in addition to Council, state society and chapter auditing committees, federal agencies and other interested groups. Single copies are available to members upon written request to the Institute's Technical Services Division.

The exposure draft discusses the desirability of including the auditor's evaluation of internal accounting control in financial reports issued to the public. It concludes that this decision should be the responsibility of management and/or any regulatory agency which has jurisdiction in the particular case. The draft also sets forth a form of report that is intended to clarify the objectives and limitations of internal control and of the auditor's evaluation of it.

NOTICE OF ARA ANNUAL MEETING

A combined meeting of the Board of Trustees and the annual meeting of the Accounting Research Association, Inc. has been scheduled for Sunday, October 10, 1971 in the Ivory Room of the Detroit Hilton Hotel at 3:00 P.M.