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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. 10

October 29, 1971

INVESTMENT CREDIT DRAFT APPROVED FOR EXPOSURE

The Accounting Principles Board decided at its October meeting to expose a draft Opinion on Accounting for Investment Tax Credits, which will supersede Opinion Nos. 2 and 4. The proposed Opinion was drafted on the basis of the bill (HR10947) passed by the House this month and will require that benefits arising from investment tax credits be accounted for as reductions in income tax expense over the periods in which the cost of the related property is charged to income. Copies are now being mailed to the entire membership, with comments due by November 30. The Board expects to take final action at its December 8-10 meeting. It will, of course, take into consideration any changes in relevant provisions of the law as finally enacted that differ substantially from those provisions in the House bill.

RETIREMENT OF DEBT

The APB reviewed a point outline on accounting for the early extinguishment of debt and authorized the committee to draft an Opinion, which would amend the provisions of Chapter 15, ARB 43. The draft will take the tentative position that all early extinguishments of debt are basically alike and that any gains or losses resulting from such transactions should be reported as extraordinary items for the period in which the debt is retired or refunded.

HEARING HELD ON LEASES

Some 165 people attended the October 14 public hearing on accounting for leases to hear 15 individuals and organization representatives present oral statements centering on the circumstances under which lessees should capitalize leases and lessors should treat them as sales. (All those wishing to be heard completed their testimony on the 14th, so the scheduled second day of the hearing was cancelled.) The APB committees are now reviewing comment letters and testimony prior to drafting a proposed Opinion. A transcript of the hearing will be available from the administrative director's office about December 1, at nominal cost.

MARKETABLE SECURITIES

Since discussions with representatives of the insurance industry are still in process, the Board agreed to defer review of the proposed Opinion on investments in equity securities until its December meeting.

STOCK COMPENSATION

In March 1971 an accounting interpretation was issued on stock compensation plans which called for recognition of compensation unless the grantee paid an amount at least equal to fair value at date of grant.

(continued)

An elaboration of this interpretation is now in process which deals with when and how compensation cost is measured in various types of stock compensation plans.

A separate interpretation is expected to be issued in January 1972, taking the position that treasury stock cannot be used to hedge compensation cost in the future.

TAX AND FINANCIAL ACCOUNTING CONFORMITY

At its October 8 meeting the Institute's Board of Directors adopted a "Statement on Conformity of Tax and Financial Accounting."

While recognizing the different objectives of tax and financial accounting and that some deviations in reporting income for these purposes are necessary, the statement concludes as follows:

"The policy of the AICPA is to advocate conformance of tax accounting to generally accepted accounting principles, with certain exceptions which need to be continuously defined in a logical and cohesive manner by the appropriate body within the AICPA.

"A requirement that external reports for creditors, stockholders, etc. conform to income tax accounting as a prerequisite for the use of certain income tax methods has been applied by the Treasury Department and further applications are under consideration.

"This 'booking requirement' may be applied inequitably among taxpayers, and also may serve as a deterrent to changes in accounting principles considered desirable by the accounting profession. Hence, the AICPA opposes imposition of 'booking requirements' by the Treasury Department, or by Congress."

COMPANIES IN THE DEVELOPMENT STAGE

A draft of a proposed guide, "Accounting for Companies in the Development Stage", will be submitted to the chairmen of the APB and committee on auditing procedure within the next few weeks with the expectation of circulating an exposure draft early in 1972.

The draft recommends a different form of financial statements for these companies, accumulation of all recoverable costs, valuation of noncash property received and modifications to the auditor's report.

SCHEDULE OF PUBLIC HEARINGS

November 3-4: Establishment of accounting principles, 1700 Broadway (11th Floor), New York.

November 22-23: Accounting and reporting practices in the oil and gas industry, Starlight Roof, Waldorf-Astoria, New York. Written statements due by November 8.

LAND DEVELOPMENT COMPANIES

The committee on land development companies is continuing to consider methods of allocating gross profit to accounting periods before releasing an exposure draft of the position paper.