1971

Accounting Research Association Newsletter, Volume IV, Number 11, December 15, 1971

American Institute of Certified Public Accountants. Accounting Research Association

Accounting Research Association

newsletter

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

VOL. IV, NO. 11 December 15, 1971

APB APPROVES THREE DRAFT OPINIONS FOR EXPOSURE

Accounting for Foreign Operations: Proposed Opinion sets forth procedures to be followed in financial statements of U. S. companies which have followed the monetary/nonmonetary approach in translating financial statements of foreign operations. Tentative positions include:

When monetary liabilities exceed monetary assets

- If foreign currency long-term monetary liabilities are present, the net translation adjustment (debit or credit) should be deferred to the extent it does not exceed the adjustment resulting from translating those long-term liabilities at the current rate. The amount deferred should be amortized over the remaining term of the long-term liabilities by use of the interest method. Any remainder of the translation adjustment should be taken into income currently.

- If no long-term monetary liabilities are present, all of the translation debit or credit adjustment should be taken into income currently.

When monetary assets exceed monetary liabilities

- All of the translation debit or credit adjustment should be taken into income currently.

The adjustments associated with the net excess monetary liability position and the adjustments associated with long-term monetary liabilities should each be aggregated on a world-wide basis for all foreign operations in computing the amount to be deferred. Aggregating the adjustments of all foreign operations on a world-wide basis precludes carrying a credit translation adjustment for one foreign subsidiary to income when a debit translation adjustment for another foreign subsidiary is being deferred, or vice versa.

Exposure draft will be issued in about a week, with comments due by January 19. Proposed effective date would be for fiscal periods beginning after December 31, 1971, with earlier compliance encouraged.

Accounting for Income Taxes-Special Areas: An exposure draft to be released in January will propose that undistributed earnings of subsidiaries, corporate joint ventures, general reserves of savings and loan associations, and policyholders' surplus of stock life insurance companies would not ordinarily call for tax allocation. Earnings of a non-subsidiary investee taken up under the equity method (Opinion No. 18) will be considered a timing difference and tax allocation would be required under the provisions of Opinion No. 11. The proposed Opinion would be effective for fiscal periods beginning after December 31, 1971.

(continued)

Disclosure of Accounting Policies: Also scheduled for January exposure is a draft Opinion which would require disclosure of basic accounting policies in corporate financial statements and would strongly recommend that this disclosure be made in a separate, self-contained Description of Accounting Policies.

NEW ACCOUNTING INTERPRETATIONS - Forthcoming issues of The Journal of Accountancy will carry the texts of two new accounting interpretations. One states that a company which does not adopt the equity method of accounting for investments in common stock until 1972 should, under the provisions of Opinion No. 18, disclose the effect in its 1971 financial statements if retroactive application would materially affect net income for that period. The other indicates that financial statements of mutual companies are subject to the provisions of Opinion No. 19 and should include a statement of changes in financial position.

ACCOUNTING FOR INVESTMENT CREDIT - In view of the section in the recently enacted Revenue Act of 1971 permitting taxpayer choice of method in accounting for the investment credit, the APB has to withdraw its exposure draft. The APB has unanimously adopted a statement which deplores congressional intervention in setting accounting principles and cites its reasons. Copies of the statement will be mailed shortly to all recipients of the exposure draft.

MARKETABLE SECURITIES - At its January meeting the APB will consider a proposal that investments in equity securities not accounted for under Opinion No. 18 should be carried at market value in the balance sheet with only realized gains and losses included in income. Net unrealized gains would be reported as a separate item in the equity section of the balance sheet.

STOCK COMPENSATION PLANS - The APB will also consider a draft Opinion to the effect that compensation, if any, recognized under stock option and stock purchase plans should be based on market value at the grant or award date. Compensation under "phantom" stock, and similar plans where the number of shares to be issued cannot be determined under a formula until some later date, would be based on the value of the stock at the end of the formula period. Also, treasury stock could not be applied as a hedge against future compensation costs.

CHANGES IN APB COMPOSITION - Effective January 1, 1972 new members of the Board will be Albert Bows of Arthur Andersen & Co., Oscar Gellein of Haskins & Sells, Donald Hayes of Arthur Young & Company and Allan Wear of the Ford Motor Co. They replace Messrs. Catlett, Harrington, Weston and Luper whose terms will have expired. Re-elected to three year terms are Messrs. Hampton and Welsch. Joseph Cummings has been appointed vice-chairman.

TWO INTERNATIONAL STUDIES APPROVED - The Accountants International Study Group has agreed in principle to publication of two studies: one would recommend that segments of diversified companies be reported separately in financial statements and that the auditor's examination be expanded to cover such information. The other, on extraordinary items and prior period adjustments, reveals relatively uniform practices in Canada, the United Kingdom and the United States. Both studies are expected to be issued in the first half of 1972.

THREE AUDIT GUIDES NEAR PUBLICATION - Audits of Savings and Loan Associations has been approved by the committee and will be sent shortly to the APB chairman for clearance. Now awaiting such clearance are Audits of Employee Health, Welfare and Benefit Plans and the Hospital Audit Guide.