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## Accounting Research Association Newsletter, Volume V, Number 4, May 5, 1972

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# Accounting Research Association newsletter

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

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VOL. V, No. 3

May 5, 1972

## AICPA COUNCIL ADOPTS WHEAT REPORT

Following discussion on May 1 and 2 at its meeting in Boca Raton, Council approved, by nearly unanimous vote, the recommendations of the Wheat Study Group. Drafting of the Foundation's charter and by-laws will begin immediately in consultation with the other specified organizations. It is expected that the Foundation will be established this summer and that the Standards Board will be operating by early 1973.

## STATUS OF ACCOUNTING PRINCIPLES BOARD PROJECTS

At its April 26-28 meeting the APB decided to move head with the following three-part program:

- Issue Opinions on matters which can be reasonably expected to be completed by January 1973. These are Stock Compensation Plans, Retirement of Debt, Leases of Manufacturer or Dealer Lessors, Third Party Lessors, Extraordinary Items, Interim Financial Statements, and Transfers of Non-Cash Assets.
- Work in Process will continue in certain other areas and summary documents will be referred to the Standards Board for final action. These include Marketable Securities, Extractive Industries and Capitalization of Leases by Lessees.
- Prompt Review of Audit/Accounting Guides will be made so that industry and the profession can benefit from as many as practical by the end of the year. Among those to be considered are Brokers and Dealers, Savings and Loan Associations, Life Insurance and Franchise Accounting.

## SUMMARY OF APRIL APB MEETING

Stock Compensation Plans: After some modification, an exposure draft of a proposed Opinion on Accounting for Stock Issued to Employees (See ARA Newsletter, Jan. 28 and March 14, 1972) will be distributed within the next two weeks for possible ballot action at the July 26-28 meeting.

Retirement of Debt: Also scheduled to be exposed to the Institute membership and others later this month is a draft on Early Extinguishment of Debt which will call for the reporting of gains and losses on retirement as a separate item in net income for the period of extinguishment.

Accounting for Income Taxes: Two Opinions on certain aspects of income tax allocation have been approved for publication and mailing to the membership should be completed by May 12. They are Special Areas (No. 23) and Investments in Common Stock Accounted for by the Equity Method (Other Than Subsidiaries and Corporate Joint Ventures) (No. 24).

(continued)

Accounting for Leases: A draft Opinion on accounting for leases by manufacturer or dealer lessors was reviewed and is expected to be approved for exposure at the June 7-9 meeting. The draft basically adopts the views in the Accounting Interpretation published in the November, 1971 Journal of Accountancy.

Land Development Companies: The Board reviewed a draft of the AICPA ad hoc committee's proposed Guide on retail land sales companies.

It concurred with the criteria in the draft to the effect that for seasoned companies a contract should be recorded as a sale when the cancellation and experience as to each type of sale (a) indicates that the buyers intent is to complete the contract and (b) provides a reasonable prediction of the percentage of contracts that will pay out to maturity. The portion of the contract price applicable to future development should be classified as deferred sales to be recognized as work is performed. Such deferral is based on the ratio of average future development costs to average total costs.

It was decided that the guide should be revised to state that interest to be received on the gross receivables (face amount of contracts less collections and estimated cancellations) over the life of the contracts should be related to the net receivables (gross receivables less deferred sales) to determine the effective rate of return which would then be compared with the appropriate rate of interest in accordance with APB No. 21 to determine whether any imputation of interest is necessary. Discounting of income taxes would not be permitted. No date for release of an exposure draft has been set.

#### RECENT TREASURY DEPARTMENT ACTIONS

A Revenue Procedure to be published on May 15 deals with the use of LIFO inventories of an acquired company valued in accordance with APB Opinion No. 16. The principal conclusions are that (a) the LIFO election will not be terminated solely because of the application of APB Opinion No. 16 if (b) any resulting differences between taxable income and net income or in amounts on the balance sheets are disclosed in the financial statements and in the tax returns in any year in which such differences result. The disclosure is required regardless of materiality. The Treasury cancelled its hearing on inventory valuation set for May 2. It has not been rescheduled. Also, the proposed regulations on long-term construction contracts will be withdrawn.

#### FUTURE OF ACCOUNTING RESEARCH ASSOCIATION UNDECIDED

The Board of Directors of the ARA, at its meeting on April 30 agreed to "business as usual" pending the report of a special committee (Marshall S. Armstrong, chairman) on the initial steps to be taken to implement the Wheat Report.

#### PROCEEDINGS AVAILABLE ON OIL AND GAS HEARING

Copies of the hearing transcript and position papers (three volumes) from the APB hearing held on Nov. 22-23 can be purchased from the APB Administrative Director's office. Price is \$20 per set.

#### SAVOIE ACCEPTS INDUSTRY POSITION

Upon completion of his contract as the Institute's executive vice president on June 30, Leonard M. Savoie will become a corporate vice president and controller of Clark Equipment Company at Buchanan, Michigan.