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Accounting Research Association Newsletter, Volume V, Number 7, September 20, 1972

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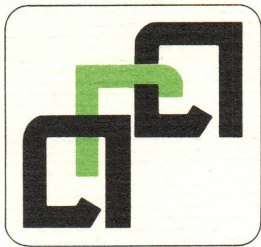


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American Institute of Certified Public Accountants. Accounting Research Association, "Accounting Research Association Newsletter, Volume V, Number 7, September 20, 1972" (1972). *Newsletters*. 1425. https://egrove.olemiss.edu/aicpa_news/1425

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Accounting Research Association

newsletter

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

VOL. V, No. 7

September 20, 1972

THREE BALLOT DRAFTS APPROVED AT SEPT. 13-15 APB MEETING

Drafts of three proposed APB Opinions were approved for mail ballot by the Board. They are Early Extinguishment of Debt, Accounting for Lease Transactions by Manufacturer or Dealer Lessors and Accounting for Stock Issued to Employees.

The positions in each of these proposed Opinions are substantively the same as those set forth in the exposure drafts. Assuming the necessary two-thirds affirmative votes are received, the final Opinions are expected to be published next month. The effective date for all three would be January 1, 1973.

Early Extinguishment of Debt: All such extinguishments are regarded as fundamentally alike and any difference between reacquisition price and net carrying amount of the debt should be recognized in income in the period of extinguishment. Amortization of gains and losses to future periods would not be permitted.

Manufacturer or Dealer Lessors: Only minor revisions for clarification are being made to the exposure draft. The November, 1971 accounting interpretation on this subject will apply to leasing transactions entered into by manufacturer or dealer lessors until the new provisions take effect.

Employee Stock Compensation: After further consideration of accounting for income tax benefits, the Board reaffirmed the positions in the exposure draft that the tax benefits in excess of the amount related to compensation expense will go to capital surplus.

OTHER APB MATTERS

Interim Financial Statements: A draft APB Opinion which clarifies the application of accounting principles and reporting practices to interim financial statements and summarized interim financial data was considered by the Board. There was tentative agreement on the position that, in general, accounting policies used for annual financial statements should be applied to those for shorter periods except that the disclosure requirements are expected to be modified as they relate to summarized interim financial data. A revised draft will be reviewed at the November 1-3 APB meeting, for possible exposure shortly thereafter.

Extraordinary Items: A draft of an APB Opinion which modifies the criteria for determining an extraordinary item was discussed at this meeting. As proposed, an item must be both unusual and infrequent to be classified as extraordinary. Also, the draft would require disclosure of items that are either unusual or infrequent but not both. A revised draft APB Opinion will be considered for possible exposure after the November meeting.

(continued)

Disclosure of Non-Capitalized Leases by Lessees: The Board is considering a draft of a proposed Opinion dealing with new disclosure requirements for leases not requiring capitalization under APB Opinion No. 5. The proposed Opinion would require separate disclosure of (1) the minimum annual rentals payable in each of the five succeeding years for all leases with a remaining noncancellable term of more than one year from the balance sheet date; (2) the present value of the aggregate net fixed minimum lease commitments for all leases with a non-cancellable term more than one year from the balance sheet dated and with an original lease term equal to two-thirds or more of the economic life of the property; and (3) total lease rentals charged against operations. Approval to expose a draft will be requested from Board members by mail.

Business Combination Contingent Upon "Bailout": An accounting interpretation to be issued will state that a business combination should be accounted for as a purchase if its consummation is contingent upon the purchase by a third party of any of the voting common stock to be issued. Such a contingency would be considered contrary to APB Opinion No. 16 and therefore precludes accounting for the combination by the pooling of interests method.

The "Pooling with 'Bailout'" interpretation, issued in September, 1971, will not be modified by this interpretation. It states that former shareholders of a combining company may sell voting common stock received following a pooling of interest. The new interpretation will make the point that consummation of a pooling must be made without regard to such sales and cannot be contingent upon, for example, a firm public offering or a guaranteed market for any of the shares being issued.

AUDITING RESEARCH MONOGRAPHS

The first in a series of Audit Monographs is now available from the Institute's order department (price to members, \$3.20). Written by D. R. Carmichael, the Institute's director of technical research, "The Auditor's Reporting Obligation" deals with the meaning and implementation of the fourth reporting standard. The results of the project are summarized in the September issue of The Journal of Accountancy.

The second monograph on accountants' reports on financial forecasts is underway. The first portion, "Reporting on Forecasts: A U.K. Perspective" can be obtained by ARA members from Mr. Carmichael, without charge. Other sections will report on the attitudes of financial executives, security analysts and practicing CPAs and will be based on a survey which is now in process.

EXPOSURE DRAFTS OUTSTANDING

The following draft publications have been distributed for public comments which are due by the dates indicated:

The Auditor's Study and Evaluation of Internal Control - September 27
Audits of Stock Life Insurance Companies - September 30
Audits of Educational Institutions - October 15
Accounting for Retail Land Sales - November 1 (Extended from October 1)
Auditing Service Center Produced Records - November 15 (Distribution in progress)