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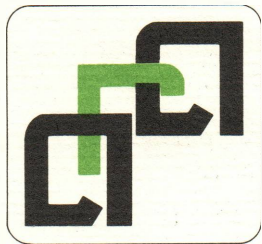


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Accounting Research Association

newsletter

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

VOL. V, No. 9

November 8, 1972

APB APPROVES THREE OPINIONS FOR PUBLICATION AT NOV. 1-3 MEETING

Early Extinguishment of Debt: The difference between reacquisition price and net carrying amount of the extinguished debt should in all cases be recognized currently in income (for the period of extinguishment) as a gain or loss and identified separately.

Manufacturer or Dealer Lessors: Generally speaking a lease should be accounted for as a sale when any one of the following conditions is present: title to the property is transferred to the lessee at the end of the lease term, or the lessee has the option to obtain title at little or no cost at the end of the lease term, or the present value of the required rental payment during the term of the lease (together with related investment credit) is equal to or greater than the normal selling price (or fair value in some cases) of the leased property, or the term of the lease is substantially equal to the remaining economic life of the property.

A lease transaction that does not meet the above criteria must be accounted for under the operating method.

The sale by a manufacturer or dealer lessor to an independent financing institution of property subject to an operating lease, or property which is leased by the financing institution to an independent party, should not be recorded as a sale if the manufacturer or dealer lessor retains any risk of ownership in the property. A remarketing agreement may indicate that the manufacturer or dealer lessor has not transferred all risks of ownership.

Employee Stock Compensation: The principles of ARB No. 43, Chapter 13B, remain in effect for traditional stock option and stock purchase plans and their application should be extended to other plans in which the number of shares and the purchase price are known at date of grant or award, which is the measurement date of these plans. For plans in which either the number of shares of stock or the purchase price depend on future events, compensation cost is to be determined at the time when both the number of shares and the purchase price are known.

Compensation cost for both traditional plans and variable plans is to be measured by the difference between the quoted market price of the stock at the determination date and the price to be paid by an employee. Income tax benefits in excess of the amount related to compensation expense will go to capital surplus.

Effective date for all three Opinions is Jan. 1, 1973. They will be published within the next two weeks.

TWO DRAFT OPINIONS TO BE EXPOSED

After the drafting of specific language changes has been completed, the following exposure drafts will be issued by the APB with possible publication of final Opinions in March:

Interim Financial Statements: Basic provisions of the draft Opinion are:

Interim financial information should be based upon the general accepted accounting principles used in the latest annual financial statements; Effective income tax rates

(continued)

expected to be applicable for the full fiscal year are to be used; An event or transaction should be reported as extraordinary in the interim period if it is expected to be reported as extraordinary at year end; Unusual material transactions or amounts for the interim period that are not designated as extraordinary should be separately reported; Certain minimum disclosure standards should be observed in reporting summarized interim financial data.

Extraordinary Items: Provides more definitive criteria than does APB No. 9 for determining whether an item should be reported as extraordinary, and proposes that it must be both (a) by its nature, inherently unrelated to the normal activities of the entity and (b) of a type that is not expected to recur in the foreseeable future. Material unusual events or transactions which do not qualify as extraordinary items are to be separately disclosed.

OTHER ACTIONS

Disclosure of Non-Capitalized Leases: a revised draft to be considered for possible exposure after the December APB meeting will require that a lessee separately disclose (1) the minimum annual rentals payable in each of the five succeeding years for all noncancellable leases with a term of more than one year from the balance sheet date; (2) present value of all leases with more than a three year remaining life, computed on a net basis (unless net rentals are not reasonable determinable) with the percentage applicable to gross leases stated; (3) total lease rentals charged against operations.

Retail Land Sales: Following discussion with representatives of the land development industry, a revised draft of the accounting position paper on this subject will be considered at the December APB meeting. Among the more important issues to be resolved are the appropriate discount rate to be applied and the method of accounting for profit on future development costs.

In a related area, a draft position paper on "Profit Recognition on Sales of Real Estate" was approved in substance by the APB chairman for exposure pending some editing of the paper which is primarily concerned with the timing of profit recognition.

Nonmonetary Transactions: An APB committee is in the process of preparing a draft of a proposed Opinion, for possible exposure after the December APB meeting, on accounting for transactions involving transfers of nonmonetary assets. The draft Opinion will propose that certain nonmonetary transactions should be accounted for at fair value with recognition of gain or loss on the exchange.

ACCOUNTING/AUDITING GUIDES

Effective Date Set for Hospital Audit Guide: Although the published Guide does not include an effective date, the Health Care Institutions Committee has decided that fiscal years beginning after June 30, 1972 would be appropriate, with earlier application encouraged. This decision was based on the fact that the Guide was widely circulated well in advance of publication and that many hospitals have implemented its provisions for fiscal years ending in 1972.

"Audits of Finance Companies": A draft has been approved for exposure and is now being distributed to interested persons and organizations. Copies are available from the Institute's auditing standards division. Recommendations are made in 14 key areas which vary from accounting practices currently considered acceptable within the finance industry. Comments are due by January 2, 1973.

"REPORTING BY DIVERSIFIED COMPANIES"

Current practices in reporting by diversified companies in Canada, the United Kingdom and the United States are discussed in a study just released by the Accountants International Study Group. It deals with the needs of investors and creditors, the technical problems, and the independent auditor's responsibility for attesting financial information on individual segments.

Copies will be mailed to ARA members shortly.