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## Accounting Research Association Newsletter, Volume VI, Number 1, February 7, 1973

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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. VI, No. 1

February 7, 1973

## ACCOUNTING/AUDITING GUIDES APPROVED

Two draft audit guides were approved by the Accounting Principles Board chairman for exposure to interested persons for comment after minor revisions. Comments will be due approximately 45 days after the expected distribution dates indicated below:

Audits of Investments Companies. (Mid February)  
Accounting for Companies in the Development Stage. (About February 22)

## ACCOUNTING FOR THIRD PARTY LESSORS

The Board decided at its Jan. 31 - Feb. 1 meeting that a paper should be prepared on third party lessors with emphasis on leveraged leases. It will discuss the various elements of such leases and set forth pros and cons of certain methods still under active consideration by the Board by which income could be recognized in such transactions. Upon completion copies will be made available on request by writing to Richard Lytle at the Institute's offices.

The paper may serve as a basis for an exposure draft of a proposed APB Opinion to be released shortly after the March APB meeting.

## STOCKHOLDER TRANSACTIONS

A draft of a proposed Opinion on stockholder transactions with third parties that result in a benefit to the corporation will also be reviewed at the March Board meeting for possible exposure.

It will describe the circumstances under which these transactions should be reflected in the corporate accounts. Such a transaction may involve, for example, a transfer of stock by a major stockholder for the benefit of the corporation to an employee as a gift or at an amount substantially below market price. The APB Committee has tentatively proposed to the Board that, with certain specified exceptions, such transactions should be accounted for as a contribution to capital with an offsetting charge to expense.

## PROPOSED S.E.C. REGULATIONS ON DISCLOSURE

Reactions to the S.E.C. releases Nos. 5342, 5343 and 5344 dealing with summary of earnings, accounting policy, and tax expense disclosures and reporting are due by February 15 in the Commission's office. The APB is expected to file comment letters.

## ACCOUNTING INTERPRETATIONS

Summaries of the unofficial accounting interpretations scheduled for publication in the March Journal of Accountancy are as follows:

(continued)

Several Companies in a Single Business Combination: When several companies negotiate a combination which is contingent upon the common agreement by the companies to the terms, each company must meet all of the conditions of paragraphs 46-48 of APB Opinion No. 16 to account for the combination as a pooling.

Transfers and Exchanges Between Companies Under Common Control: Paragraph 5 of APB Opinion No. 16 states that the Opinion does not apply to transfers and exchanges of assets between companies under common control so long as the transactions do not involve outsiders. The transactions are accounted for at historical cost, similar to a pooling of interests. However, purchase accounting applies when the effect of a transfer or exchange is to acquire all or part of the outstanding shares held by the minority interest of a subsidiary (see paragraph 43).

Goodwill in a Step Acquisition: When a company in a series of purchases acquires either a subsidiary which is consolidated or an investment which is carried on the equity method, the company should identify the fair value of the underlying assets acquired and the goodwill for each step purchase. Goodwill associated with each step purchase acquired prior to November 1, 1970 should be accounted for under Chapter 5 of APB No. 43. Goodwill acquired thereafter should be amortized as specified by APB Opinion No. 17.

Earnings per Share Computations for Accounting Changes: Two Accounting Interpretations explain how to make EPS computations when a company has an accounting change reported under APB Opinion No. 20. One explains how to reflect the effect of a change in the EPS denominator caused by a retroactive adjustment to a prior period. The other explains the application of the anti-dilution prohibitions of APB Opinion No. 15 in reporting EPS for a "catch-up" adjustment of an accounting change.

Disclosure of Untaxed Undistributed Earnings of Subsidiary: Paragraph 14-b of APB Opinion No. 23 requires disclosure of the cumulative amount of undistributed earnings of a subsidiary on which a parent company has not accrued income taxes but which would be subject to income taxes if distributed currently. Therefore, the amount disclosed would not include, (1) the undistributed earnings of an 80 percent or more owned domestic subsidiary that is included in a consolidated income tax return or where a single surtax exemption has been elected with separate tax returns, (2) the undistributed earnings of a subsidiary expected to be remitted to the parent in a tax free liquidation, or (3) the undistributed earnings of a foreign subsidiary on which the tax would be offset by an available foreign tax credit. In addition, if under existing law a short-term postponement would make the distribution tax free, those earnings need not be included in the amount disclosed.

EXPOSURE DRAFTS NOW OUT FOR COMMENT

Interim Financial Statements (Proposed APB Opinion - due Feb. 16)  
Reporting the Effects of Extraordinary Events and Transactions  
(proposed APB Opinions - due Feb. 19)  
Accounting for Nonmonetary Transactions (Proposed APB Opinion - due  
March 9)  
Profit Recognition on Sales of Real Estate (Proposed Industry Accounting  
Guide - due March 15)  
Disclosure of Lease Commitments by Lessees (Proposed APB Opinion -  
due March 23)