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1973

Accounting Research Association Newsletter, Volume VI, Number 2, March 14, 1973

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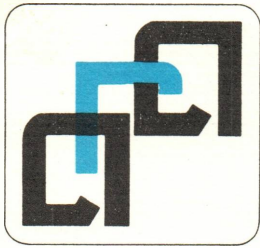


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American Institute of Certified Public Accountants. Accounting Research Association, "Accounting Research Association Newsletter, Volume VI, Number 2, March 14, 1973" (1973). *Newsletters*. 1420. https://egrove.olemiss.edu/aicpa_news/1420

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Accounting Research Association newsletter

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

Vol. VI, No. 2

March 14, 1973

TWO APB OPINIONS NEAR COMPLETION

Subject to a mail balloting of Accounting Principles Board members, scheduled to take place during the next few weeks, it is expected that Opinions will be issued this spring on extraordinary items and interim financial statements. The effective dates in the proposed Opinions, if approved, will be July 1, 1973. These have been changed from the previously proposed January 1, 1973 dates.

Reporting the Effects of Extraordinary Events and Transactions: At its March 5-7 meeting, the APB tentatively approved the basic position stated in the exposure draft that, in order for an item to be classified as extraordinary, it must be both unusual and infrequent. The ballot draft will require that, in the disposal of a segment of a business, the anticipated funds from operations (revenue and expenses less non-fund items such as depreciation and amortization) for about one year (if actual disposal will take that long) should be included in the overall determination of gain or loss. This is a change in position from that set forth in the exposure draft.

Interim Financial Statements: The ballot draft has been organized into two sections. The first section covers the application of generally accepted accounting principles when interim financial information is presented. It makes clear that interim periods should be viewed primarily as being an integral part of an annual period. Also, some of the illustrative examples have been clarified and the one on the accrual of advertising costs has been revised to provide for accrual of advertising costs when they are related to sales for programs or expenditures that clearly benefit more than a single interim period within a fiscal year.

The second section deals with disclosure policies when summarized or condensed interim financial data are issued. The requirements of this section now apply only to publicly traded companies - a change from the exposure draft which would have applied these provisions to all companies issuing summarized interim financial data.

STOCKHOLDER TRANSACTIONS

The APB has decided not to issue an Opinion, but will publish an accounting interpretation, on stockholder transactions with third parties that result in a benefit to the corporation. It will apply the principles of APB Opinion No. 25 and ARB No. 43, Chapter 13 to such transactions by principal stockholders.

In general, the interpretation will hold that these transactions should be treated as contributions to capital with the offsetting charge accounted for in the same manner as compensatory stock plans. The compensation cost of unrestricted stock to employees would be amortized over the anticipated periods of the employees' service, but not more than five years. Company tax benefits would be accounted

(continued)

for under paragraph 16-18, APB Opinion No. 25. If no tax benefit accrued from this stock transaction, but would have under a company plan, its absence should be considered in estimating the cost to the company (paragraph 89, APB Opinion No. 16).

ACCOUNTING FOR THIRD PARTY LESSORS

No APB Opinion will be issued on accounting for leases in which a third party is the lessor. The Board expects to consider this subject at its April meeting after which either a position paper will be forwarded to the Financial Accounting Standards Board or an accounting interpretation on leveraged leases will be published.

ACCOUNTING FOR FOREIGN EXCHANGE

The APB is referring standards for translating foreign operations to the FASB. In this connection, APB chairman, Philip DeFliese has made the following statement:

"It is regrettable that, because of the short time remaining in the APB's existence and in view of our other commitments, we are unable to provide definitive guidelines for the profession on the subject of foreign exchange gains and losses, especially as affected by the dollar devaluation.

"After consulting other Board members, I offer the following suggestions to CPAs faced with these problems:

1. A number of alternative methods are acceptable in recognizing the effects of currency devaluations in financial statements. These methods are discussed in previous pronouncements of the AICPA and other accounting literature. Among the latter are the exposure draft of an APB Opinion (not acted upon), Translating Foreign Operations, which was issued in December, 1971 and Accounting Research Study No. 12, Reporting Foreign Operations of U.S. Companies in U.S. Dollars, published in the fall of 1972.
2. The effects of devaluation should be recognized in the period in which it occurs.
3. The provisions of APB Opinion No. 9 apply to the determination as to whether the effects of devaluation should be considered extraordinary until the proposed Opinion on reporting the effects of extraordinary events and transactions becomes effective.

"Until new standards for narrowing existing alternatives are established, the Board encourages companies to disclose their accounting policies as to the determination of and accounting for translation adjustments and to indicate whether they are consistently applied."

ACCOUNTING/AUDITING GUIDES

Audits of Colleges and Universities: APB chairman has approved the guide for publication, with one substantive change from the exposure draft. Either cost or market (but not both) is permitted as a basis for valuing investments for all funds. The exposure draft had specified only the cost basis. Publication is expected in late spring, depending upon final approval of the Auditing Standards Executive Committee (ASEC).

Due Dates Set for Exposure Drafts: Copies of the following draft guides are available from the Institute's auditing standards division, with comments due as indicated: Accounting for Motion Picture Films (April 23), Audits of Companies in the Development Stage (May 1). Also, comments are due by March 23 on Audits of Investment Companies.

Guides Nearing Exposure: The APB chairman has approved for exposure within the next few weeks the following audit guides, pending final approval of the ASEC: companies in defense contracting, voluntary health and welfare organizations, pension funds and state and local governmental units.