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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. 4

June 19, 1973

ACCOUNTING PRINCIPLES BOARD

At its final meeting June 11-13, the APB approved two Opinions for mail ballot and authorized three accounting interpretations all of which are to be completed by the Board's termination date of June 30. The chairman also cleared five Accounting/Auditing Guides and may clear a sixth before June 30.

Extraordinary Items: The new ballot draft continues to require that, to qualify as extraordinary, events and transactions must be both unusual and infrequent. A modification of the previous ballot draft calls for separate classification of the effects of disposal of a segment of a business as part of income before extraordinary items. If approved, the Opinion will apply to events and transactions occurring after September 30, 1973.

Illustrative applications of this proposed Opinion will be incorporated in an Interpretation which will be published in the Journal of Accountancy.

Lease Disclosure: Reversing a tentative decision to refer the subject of lessee disclosure of lease commitments to the Financial Accounting Standards Board, the APB will ballot on a draft Opinion which would require disclosure of total rental expense for each of the years presented in the financial statements and the amounts of minimum rental commitments in the future under existing leases. Disclosure of capitalized present values is optional under the provision of the ballot draft. The Opinion will be effective for fiscal periods ending on or after December 31, 1973 and applies to all non-capitalized leases, including those entered into prior to the issuance of the APB Opinion.

In deciding to proceed with this subject, the APB has stated that it did not wish to set requirements that may prejudice or infer any bias regarding the Financial Accounting Standards Board study of the broader issues of lease accounting by lessees. It believes, however, that some improvement and standardization in disclosure is needed in the meantime.

Under proposed amendments to Regulation S-X the SEC would require disclosure of the present values of minimum lease commitments in the aggregate and by major category of assets. The impact on net income for each period for which an income statement is presented if all non-capitalized financial leases were capitalized would also be disclosed. The SEC is accepting comments until August 31.

Leveraged Leases: An Interpretation of APB Opinion No. 22 on accounting policies will be prepared to set minimum disclosure standards for accounting for leveraged leases. A more extensive proposed interpretation dealing with accounting requirements for these leases was not accepted.

Sale and Leasebacks: Profits under a long-term sale and leaseback arrangement cannot be recognized unless the property is sublet to a third party. This is the gist of a forthcoming Interpretation of Opinion No. 5.

(continued)

ACCOUNTING/AUDITING GUIDES

The following were approved for publication by the APB chairman: Profit Recognition on Sales of Real Estate, Accounting for Motion Picture Films, Audits of Investment Companies, Audits of Voluntary Health and Welfare Organizations, and Audits of State and Local Governmental Units. The last three must now be cleared with the chairman of the Auditing Standards Executive Committee. Two previously approved Guides should be available within the next three weeks. They are: Audits of Colleges and Universities and Audits of Financial Companies.

Three proposed Guides will not be issued. Drafts on Accounting for Companies in the Development Stage, Audits of Pension Funds and Audits of Companies Engaged in Defense Contracting are expected to be referred to the Accounting Standards Executive Committee. Form of publication is not yet decided. The decision on publication clearance for Accounting for Companies in the Development Stage was postponed pending further investigation of possible conflicts with an FASB project.

INTERNATIONAL ACCOUNTING

Representatives of certain accountancy groups from nine countries will meet in London on June 28 to form a committee to develop basic international accounting standards. The AICPA will be represented by Joseph P. Cummings. Other participating organizations are from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, and the United Kingdom and Ireland.

Two Studies by the Accountants International Study Group on Consolidated Financial Statements and The Funds Statement are now being mailed to ARA members. Price to other AICPA members is \$1.40 each.

FASB APPOINTS TWO TASK FORCES

Task forces to consider accounting for foreign currency translation and to study reporting for diversified companies have been selected by the Financial Accounting Standards Board.

Heading the fifteen member foreign currency group, which includes four practicing CPAs, three industry representatives and three educators, is FASB member Donald J. Kirk.

Arthur L. Litke of the Standards Board is chairman of the task force on diversified companies, which includes seven corporate executives and three CPAs in practice among its 16 members.

Under the FASB Rules of Procedure, these task forces will prepare a discussion memorandum on the accounting and reporting problems and recommend the nature of necessary research. (Copies of the Rules of Procedure are available, free, from the FASB, High Ridge Park, Stamford, Conn. 06905.)

The five remaining subjects on the Board's initial agenda, for which task forces have not yet been appointed are: materiality, lease accounting by lessees and lessors, accrual of future losses, accounting for such costs as research and development, and broad qualitative standards for financial reporting.

FASB TO PUBLISH NEWSLETTER

A newsletter called Status Report is to be published by the FASB on at least a monthly basis. Subscribers to the \$15 a year publication also will receive such Board material as discussion memoranda, hearing notices and exposure drafts of proposed Statements. For information write to FASB.