12-6-1971

Accounting Letter, The AICPA Weekly News Digest, December 6, 1971

American Institute of Certified Public Accountants (AICPA)

accounting letter THE AICPA WEEKLY NEWS DIGEST

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ACCOUNTING FOR INVESTMENT CREDIT. A Senate/House conference committee last week left intact a Senate provision in the Revenue Act of 1971 which would permit the use of any method of accounting for the investment credit for financial reporting purposes as long as the method used is disclosed. The conference committee also added a requirement that a taxpayer must consistently follow his chosen method from year to year in his financial reports unless a change is approved by the Treasury. Before it becomes law, the conference bill must be approved by both houses and it must be signed by the President.

If enacted, the law would in effect overrule the conclusion in an APB exposure draft which would permit only the deferral method of accounting for investment tax credits.

Opposition to the setting of accounting principles by Congress was expressed by the AICPA, the Financial Analysts Federation, The Wall Street Journal, and Business Week among others. The APB will consider this legislation at its meeting this week in New York.

PETROLEUM ACCOUNTING. Nearly 90 position papers were submitted and over 30 individuals presented oral testimony at the APB's public hearing on accounting and reporting practices in the petroleum industry on November 22-23 in New York.

The discussion focused primarily on the Board's tentative conclusion that the "field" (or geological area) is the most appropriate center for accumulation of discovery and development costs related to recoverable oil and gas reserves. Many of the position papers and speakers, however, expressed the view that the field is too narrow a cost center and that a larger cost center is needed such as that used by companies following full cost accounting.

Another subject of debate was the APB's tentative conclusion that only those pre-discovery costs associated with specific reserves should be capitalized and amortized. All post-discovery intangible development costs would be capitalized. Most of the papers and speakers urged adoption of full cost accounting, which, in its widest application, would capitalize all exploration and development costs in a single cost center (with perhaps separate cost centers for foreign operations).

In a related development, the Federal Power Commission on November 5 issued its Order No. 440 requiring full cost accounting on a nationwide basis for all exploration and development costs incurred by pipeline companies on natural gas leases acquired after October 6, 1969.

MARKETABLE EQUITY SECURITIES. On November 15, the APB committee on marketable securities met with chief executives of major fire and casualty insurance companies. From this group an *ad hoc* industry committee was appointed to work with the Board in its consideration of an Opinion on accounting for investments in marketable equity securities for which neither consolidation nor the equity method is appropriate.

APB AGENDA. Other items to be covered at this week's APB meeting include (1) consideration of a draft Opinion (for possible exposure) on the applicability of Opinion 11 to undistributed earnings of subsidiaries, general reserves of stock savings and loan associations, amounts designated as policyholders' surplus by stock life insurance companies and earnings taken up under the equity method (Opinion 18); and (2) discussion of a preliminary draft of an Opinion on the disclosure of accounting policies.

TAX DIVISION MEETS. The Institute's 118-member tax division and its 13 constituent committees will meet this week in Boca Raton, Florida. Action is expected on (1) an exposure draft of a proposed Statement on Responsibilities in Tax Practice regarding "Certain Procedural Aspects in Preparing Returns," (2) a position paper on anticipated legislation to reform the estate gift tax and (3) a report on a survey concerning the CPA's role in tax practice--today and in the future. IRS Commissioner Johnnie M. Walters and other government officials will participate in the tax division meetings.

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