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accounting letter

THE AICPA WEEKLY NEWS DIGEST

December 13, 1971

Editor: Paul A. Pacter

ACCOUNTING FOR INVESTMENT CREDIT. In a statement issued on December 9, the APB announced that it "has had to defer its efforts to develop a single uniform method of accounting for the investment credit in view of Congressional action permitting taxpayer choice of accounting method of recognizing the benefit of the credit.

"The Congressional action requires consistency in the use of the accounting method selected, unless the Treasury Department consents to a change. The designation of another agency, the Treasury Department, to approve changes in accounting methods may hamper the APB's efforts to further improve reporting to investors since the APB has recently issued a pronouncement permitting changes in accounting methods only when the new methods are preferable."

The statement concluded, "The APB unanimously deplores Congressional involvement in establishing accounting principles for financial reports to investors, which largely have been the responsibility of the Securities and Exchange Commission and the accounting profession. The APB further deplores Congressional endorsement of alternative accounting methods, especially since there has been strong demand by Congressmen and others for the elimination of alternative methods which confuse investors."

SEC PROPOSES GREATER BROKER/DEALER DISCLOSURE. The SEC in Release No. 34-9404 proposes to amend Rule 17a-5 of the 1934 Act to provide for greater broker/dealer disclosure to customers. Annually, broker/dealers would have to send each customer (1) audited financial statements equivalent to those he would receive if he were investing in a public company; (2) a statement summarizing any material inadequacies in the accounting system or procedures for safeguarding securities found to exist by the independent auditor; and (3) computation of the ratio of aggregate indebtedness to net capital. The net capital ratio would also have to be sent to each customer on a quarterly basis and certain balance sheet information would have to be made available, at the customer's request, each quarter. Finally, it is proposed that the audit requirements of Form X-17A-5 be amended so that the auditor's comments regarding material inadequacies could no longer be treated as supplementary non-public information. The SEC wants comments by February 1, 1972.

SEC PROPOSES AMENDMENTS TO FORM S-16. The SEC proposes in Release No. 33-5212 that Form S-16, a highly streamlined registration form, be made available for registration of securities of a larger group of companies

than at present, including companies listed on a national securities exchange, companies quoted by NASDAQ, and some closed end management investment companies. Comments are due by January 3, 1972.

FORECASTS IN SEC FILINGS? SEC Chairman William J. Casey, in a recent address to The Conference Board in New York, said that "the time has come when we should re-examine the question of the inclusion of projections, forecasts and appraisals in our disclosure framework." The SEC does not now require such projections and, in fact, generally hasn't permitted them. Mr. Casey indicated that if any action were taken by the SEC, it would probably initially permit inclusion of projections rather than require them. He did not discuss whether the forecasted data would have to be examined and reported on by independent public accountants.

ACCOUNTANTS INTERNATIONAL STUDY GROUP. The AISG, comprising representatives of the independent accountants' Institutes in Canada, the United Kingdom and the United States, has agreed in principle to publish two studies--one on reporting by diversified companies and the other on extraordinary items and prior period adjustments.

The former study recommends that accounting information on segments of a diversified company be included in financial statements sent to shareholders and that the independent auditor's examination be expanded to cover such information. The latter study reveals relatively uniform practices in the three AISG nations in accounting for extraordinary items and prior period adjustments.

The AISG is nearing agreement on a third study which deals with disclosure of company profit forecasts and the association of independent accountants with such forecasts. Also, the AISG has recently authorized the undertaking of two new studies, one on translation of foreign currency items and the other on the concept of materiality.

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