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Accounting Letter, The AICPA Weekly News Digest, December 20, 1971

American Institute of Certified Public Accountants (AICPA)

accounting letter THE AICPA WEEKLY NEWS DIGEST

December 20, 1971 Editor: Paul A. Pacter, CPA

APB APPROVES THREE DRAFT OPINIONS FOR EXPOSURE. "Accounting for Foreign Operations" will set forth procedures to be followed in financial statements of U.S. companies which have followed the monetary/nonmonetary approach in translating financial statements of foreign operations. The exposure draft will be issued within the next few days and comments will be due by January 19. The proposed effective date would be for fiscal periods beginning after December 31, 1971, with earlier compliance encouraged.

"Accounting for Income Taxes-Special Areas," to be exposed in January, will propose that undistributed earnings of subsidiaries, corporate joint ventures, general reserves of savings and loan associations, and policyholders' surplus of stock life insurance companies would not ordinarily call for tax allocation. Earnings of a nonsubsidiary investee taken up under the equity method (Opinion No. 18) will be considered a timing difference and tax allocation would be required under the provisions of Opinion No. 11. The proposed Opinion would be effective for fiscal periods beginning after December 31, 1971.

"Disclosure of Accounting Policies," also scheduled for January exposure, will propose disclosure of basic accounting policies in corporate financial statements and strongly recommend that this disclosure be made in a separate, self-contained Description of Accounting Policies.

NEW ACCOUNTING INTERPRETATIONS. Forthcoming issues of The Journal of Accountancy will carry the texts of two new accounting interpretations. One states that a company which does not adopt the equity method of accounting for investments in common stock until 1972 should, under the provisions of Opinion No. 18, disclose the effect in its 1971 financial statements if retroactive application would materially affect net income for that period. The other indicates that financial statements of mutual companies are subject to the provisions of Opinion No. 19 and should include a statement of changes in financial position.

MARKETABLE SECURITIES. At its January meeting the APB will consider a proposal that investments in equity securities not accounted for under Opinion No. 18 should be carried at market value in the balance sheet with only realized gains and losses included in income. Net unrealized gains would be reported as a separate item in the equity section of the balance sheet.

STOCK COMPENSATION PLANS. The APB will also consider a draft Opinion to the effect that compensation, if any, recognized under stock option and stock purchase plans should be based on market value at the grant or award date. Compensation under "phantom" stock, and similar plans where the number of shares to be issued cannot be determined under a formula until some later date, would be based on the value of the stock at the end of the formula period. Also, treasury stock could not be applied as a hedge against future compensation costs.

THREE AUDIT GUIDES NEAR PUBLICATION. "Audits of Savings and Loan Associations" has been approved by the committee and will be sent shortly to the APB chairman for clearance. Now awaiting such clearance are "Audits of Employee Health, Welfare and Benefit Plans" and the "Hospital Audit Guide."

SELF-EMPLOYED PENSIONS. In a message to Congress on December 8, President Nixon proposed that the annual limit for deductible contributions by the self-employed be raised to $7,500 or 15% of income whichever is less. The current limit is $2,500 or 10%.

TAX FILING EXTENSION. IRS Commissioner Johnnie M. Walters, in a speech at the AICPA tax division meeting on December 9, announced that taxpayers will be granted an automatic two-month extension to file individual returns if they make a tentative estimate of their tax for the year and pay the estimated balance due when requesting the extension. The AICPA has been recommending such a provision for many years. Further details will be carried in the January Journal.

REVISED ETHICS CODE. At its December 9-10 meeting in Washington, the AICPA Board of Directors approved a revised Code of Professional Ethics for exposure to the membership in February and Council action in the spring. With Council's approval the revised Code will be discussed at the AICPA annual meeting in the fall and then submitted to the membership in a mail ballot.

PHASE II. Twelve AICPA members have been praised for their assistance to the Price Commission in setting up wage-price guidelines. Six of these members are now helping establish IRS procedures for auditing compliance with Phase II regulations. The auditor's responsibility to disclose a client's failure to comply with various laws and regulations, including the wage-price regulations of Phase II, will be discussed in the January Journal of Accountancy.

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