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Accounting letter

THE AICPA WEEKLY NEWS DIGEST

December 27, 1971

Editor: Paul A. Pacter, CPA

UNREMITTED EARNINGS OF DISCs. The exposure draft of an APB Opinion on "Accounting for Income Taxes-Special Areas," to be released in January, will propose that the unremitted earnings of Domestic International Sales Corporations be treated in a manner similar to undistributed earnings of subsidiaries and corporate joint ventures, that is, interperiod income tax allocation would not ordinarily be required. The DISC is a specially-taxed type of U.S. corporation created by the Revenue Act of 1971 to make American exporters more competitive in world markets.

LIFE INSURANCE COMPANIES. The SEC has said that life insurance companies which heretofore have reported to the SEC and to their shareholders in accordance with accounting practices prescribed by state statutes must continue to do so until an industry audit guide on "Audits of Life Insurance Companies," presently in the draft stage, is adopted by the AICPA committee on insurance accounting and auditing. Those companies which have previously used the "natural reserve method" in registration statements or annual reports filed with the SEC may continue to do so.

Some companies now using statutory accounting had announced plans to switch to the natural reserve method, which adjusts the statutory earnings principally by spreading the initial expenses of writing a life insurance policy over a number of years and by using more realistic actuarial assumptions in computing policyholders' reserves than those prescribed by statute. The SEC's announcement came in a letter from the Commission to the AICPA committee on insurance accounting and auditing.

LONG-TERM INVESTMENTS. A draft of a Statement on Auditing Procedure on long-term investments, to replace SAP 34, is being readied for public exposure early next year. The new SAP will devote considerable discussion to auditing and reporting problems arising from the expanded application of the equity method of accounting prescribed by APB Opinion 18 for investments in common stock.

AUDITS OF EDUCATIONAL INSTITUTIONS. A draft of a new industry audit guide, "Audits of Educational Institutions," has been sent to the APB and the committee on auditing procedure for their review prior to public exposure, which is slated for early 1972.

REQUIRED CONTINUING EDUCATION. Last spring the AICPA Council adopted a resolution urging the states to require by legislation or regulation that CPAs demonstrate that they are continuing their professional education. Five articles and an editorial in the January issue of The Journal of Accountancy will focus on various aspects of this controversial proposal.

IRS PROPOSED REGULATIONS ON TAX ACCOUNTING. The IRS has issued proposed regulations on "accounting for long-term contracts" (prior proposed regs on this subject issued March 24, 1971, have been withdrawn) and on "use of the full absorption or modified full absorption method of inventory valuation." In each set of proposed regulations there is a direct relationship between the tax accounting method and the financial reporting method for long-term contracts and valuing inventories. The Tax Division and the Accounting Principles Board are reviewing the proposed regulations.

REVISIONS TO REGULATION S-X. It is not expected that the proposed revisions to Regulation S-X will be ready in time to be applied to financial statements for the year ended December 31, 1971. The proposed general revisions, the first since 1950, were announced in SEC Releases Nos. 33-5177 and 34-9264 dated August 20, 1971.

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