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American Institute of Certified Public Accountants. Accounting Standards Executive Committee

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AcSEC UPDATE

A publication of the Accounting Standards Executive Committee of the AICPA

EFFECTIVE DATES

SOP 95-3, *Accounting for Certain Distribution Costs of Investment Companies*, for years beginning after 12-31-95.

SOP 95-1, *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises*, which is a companion pronouncement to FAS 120, *Accounting and Reporting by Mutual Life Insurance Enterprises and by Insurance Enterprises for Certain Long-Duration Participating Contracts*, for years beginning after 12-15-95.

SOP 94-4, *Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans*, for years beginning after 12-15-94. Application to investment contracts entered into before 12-31-93 was delayed to plan years beginning after 12-15-95.

SOP 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, for years beginning after 12-15-94. Application to not-for-profit organizations with less than $5 million in total assets and less than $1 million in total expenses was delayed to years beginning after 12-15-95

Banks and Savings Institutions—Accounting and financial reporting provisions of the Guide that do not describe other authoritative literature are effective for financial statements issued for fiscal years ending after June 15, 1996, and for interim financial statements issued after initial application.

About AcSEC

The Accounting Standards Executive Committee (AcSEC) is a senior technical committee of the AICPA, meaning it sets the technical policies of the Institute regarding financial accounting and reporting matters. It is also the Institute's official voice on these matters.

Formed in 1972, AcSEC's roots can be traced to 1933 when the AICPA first made recommendations to the New York Stock Exchange to improve financial reporting. By 1938, the AICPA's Committee on Accounting Procedures had begun developing financial reporting principles. In 1959, the AICPA established the Accounting Principles Board (APB). Though the primary responsibility for setting financial accounting and reporting standards was shifted from the APB to the Financial Accounting Standards Board (FASB) in 1973—and its governmental counterpart, the Governmental Accounting Standards Board (GASB), in 1984—the AICPA has continued, through AcSEC, to provide guidance on financial reporting issues until the FASB or GASB provides a standard on the topic.

The AICPA has designated the FASB and the GASB as the final authorities on all financial accounting and reporting matters. AcSEC's pronouncements are also recognized as sources of established accounting principles.

The fifteen members of AcSEC are CPAs who are drawn from the approximately 328,000 members of the AICPA. They are from public accounting, industry, and education and serve without monetary compensation for a term usually lasting three years.

The members of AcSEC and their affiliations are:

G. Michael Crooch, *Chair*—Arthur Andersen, LLP
Philip D. Ameen—General Electric
James L. Brown—Crowe Chizek & Co.
Joseph H. Cappalonga—Deloitte & Touche, LLP
John C. Compton—Cherry, Bekaert & Holland
Leslie A. Coolidge—KPMG Peat Marwick, LLP
Edmund Coulson—Ernst & Young, LLP
George P. Fritz—Coopers & Lybrand, LLP
R. Larry Johnson—Johnson Lambert & Co.
David B. Kaplan—Price Waterhouse, LLP
James W. Ledwith—J. H. Cohn & Co.
Louis W. Matusiak, Jr.—Geo. S. Olive & Co.
Charles L. McDonald—University of Florida
James P. McComb—CSX Transportation
Roger H. Molvar—Times Mirror

Upcoming AcSEC Meetings

AcSEC Meetings are open to the public. For AcSEC agenda information, call: 212–596–6166 or 212–596–6167.

July 23–24, 1996	New York
September 10–11, 1996	New York
October 22–23, 1996	Chicago

AUTHORITATIVE PRONOUNCEMENTS

Topics for AcSEC's consideration are recommended by individuals from public accounting, industry, education, government, and the FASB and Securities and Exchange Commission (SEC). Issues are evaluated by committees and task forces of representatives from the fields most affected. If appropriate, AcSEC issues a pronouncement as part of an Audit and Accounting Guide or in the form of a Statement of Position (SOP), or Practice Bulletin.

Audit and Accounting Guides summarize the accounting practices of specific industries and provide authoritative financial accounting and reporting guidance on matters not addressed in authoritative pronouncements by the FASB, GASB, or their predecessor bodies.

Statements of Position (SOPs) provide guidance on financial reporting topics until FASB or GASB sets standards on the issues in question. SOPs may update, revise, and clarify audit and accounting guides or provide freestanding guidance.

Practice Bulletins disseminate AcSEC's views on narrow financial-reporting issues not considered by FASB or GASB.

In developing its pronouncements, AcSEC follows a due process that involves, at a minimum, discussion of projects at public meetings and, for Audit and Accounting Guides and SOPs, pronouncements in category (b) of the SAS No. 69 hierarchy of sources of GAAP — exposure for public comment before being issued in final form.

The accounting guidance contained in AcSEC's authoritative pronouncements is cleared by the FASB following a procedure that involves the FASB reviewing and discussing in public Board meetings (1) a prospectus for a project to develop a document, (2) a proposed exposure draft that has been approved by at least ten of AcSEC's fifteen members, and (3) a proposed final document that has been approved by at least ten of AcSEC's fifteen members. If five of the seven FASB members do not object to AcSEC undertaking the project, issuing the proposed exposure draft or, after considering the input received by AcSEC as a result of the issuance of the exposure draft, issuing the final document, the document is cleared.

The criteria applied by the FASB in their review of the proposed project and proposed documents include (1) the proposal does not conflict with current or proposed accounting requirements, unless it is a limited circumstance, usually in specialized industry accounting, and the proposal adequately justifies the departure, (2) the proposal will result in an improvement in practice, (3) the AICPA demonstrates the need for the proposal, and (4) the benefits of the proposal are expected to exceed the costs of applying it. In many situations, the clearance of the proposed project and proposed documents by the FASB reflect suggested changes to the proposed items.

AcSEC pronouncements that apply to governmental entities are cleared by the GASB under similar procedures.

To order copies of AcSEC Pronouncements

Write: AICPA Order Department, NQ, P.O. Box 2209, Jersey City, NJ 07303–2209; **order via fax,** 800–362–5066; or **call** 800–862–4272 (option #1). Ask for Operator NQ. Orders for exposure drafts must be written or faxed.

OTHER AcSEC ACTIVITIES

AcSEC issues letters of comment on financial accounting and reporting proposals by groups outside the AICPA, such as the FASB, GASB, International Accounting Standards Committee (IASC), and SEC. AcSEC also issues public statements on financial accounting and reporting matters and prepares issues papers for consideration by other bodies.

At its June 4, 1996 meeting, AcSEC approved comment letters responding to—

- The GASB's exposure draft (ED) of a proposed Statement, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*
- The FASB's ED of a proposed Statement, *Earnings per Share and Disclosure of Information about Capital Structure.*
- The IASC's ED of a proposed International Accounting Standard, *Earnings per Share.*
- The FASB's ED of a proposed Statement, *Reporting Disaggregated Information About a Business Enterprise.*
- The IASC's ED of a proposed International Accounting Standard, *Reporting Financial Information by Segment.*

AcSEC AGENDA PROJECTS

	1996			1997
As of May 31, 1996	2Q	3Q	4Q	1Q
General Applicability				
Environmental Remediation Liabilities—SOP (page 4)		F		
Internal-Use Software—SOP (page 5)		E		
Start-Up Costs—SOP (page 8)			E	
Credit Unions				
Credit Unions—Guide (page 9)				E
Computer Software Industry				
Software Revenue Recognition—SOP (page 7)	E			
Employee Benefits Plans				
Certain Employee-Benefit-Plans Issues—SOP (page 4)		E		
Financial and Commodities Trading and Investment Industries				
Brokers and Dealers in Securities —Guide (page 8)			F	
Commodities Futures—Guide (page 9) (Scheduled beyond 1Q '97)				
Investment Companies—Guide (page 9)				E
Health Care Industry				
Prepaid Health Care—SOP (page 7)			E	
Health Care Organizations—Guide (page 9)		F		
Insurance Industry				
Deposit Accounting for Certain Insurance Contracts—SOP (page 4)		E		
Guaranty Fund Assessments—SOP (page 5)		E		
Life and Health Insurance Entities—Guide (page 9)		E		
Motion Picture Industry				
Motion Pictures—SOP (page 6)			E	
Not-for-Profit Organizations and Governments				
Joints Activities of Not-for-Profit Organizations and State and Local Governmental Entities —SOP (page 6)			F	
Not-for-Profit Organizations—Guide (page 9)		F		
Real Estate Industry				
Real Estate Entities—Guide (page 10) (Scheduled beyond 1Q '97)				
Real Estate Joint Ventures—SOP (page 7)		E		
Real Estate Loans that Qualify as Investments in Real Estate—SOP (page 7)				
Participating Mortgages—SOP (page 6)			F	
Supplemental Current Value Reporting for Real Estate Companies—SOP (page 8) (Timing to be determined)				

Codes: **E—Exposure Draft**
F—Final Pronouncement

New Guide for Banks and Savings Institutions

On April 1, the AICPA gave members a new tool for preparing and auditing financial statements of banks and savings institutions. Prepared by the AICPA Banking and Savings Institutions Committee, the new Audit and Accounting Guide, *Banks and Savings Institutions* (product no. 011175), emphasizes risk and describes relevant —

- Industry transactions and activities.
- Regulatory issues.
- Accounting principles and financial reporting practices.
- Auditing standards, procedures and practices.

Most important, the Guide requires banks and savings institutions to make new financial statement disclosures about regulatory matters beginning in years ending after June 15, 1996. The new requirements include both quantitative and qualitative disclosures. Quantitative disclosures address required and actual amounts and ratios of regulatory capital. Qualitative disclosures cover regulatory capital classifications and the risk of regulatory intervention.

Among other accounting matters addressed, the Guide—

- Clarifies accounting for loans and for liabilities related to credit exposures from off-balance-sheet financial instruments.
- Explains accounting and auditing issues involving derivatives.
- Changes disclosure requirements for deposits and repurchase agreements.

AcSEC's CURRENT SOP PROJECTS

As of May 31, 1996

Application of Deposit Accounting to Certain Insurance Contracts (Staff: Elaine Lehnert). FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, and the resolution of EITF Issue 93-6, *Accounting for Multiple-Year Retrospectively Rated Reinsurance Contracts by Ceding and Assuming Enterprises*, and EITF Issue 93-14, *Accounting for Multiple-Year Retrospectively Rated Insurance Contracts by Insurance Enterprises and Other Enterprises*, have heightened awareness about and provided specific guidance on when deposit accounting should be applied to insurance and reinsurance contracts. The existing guidance on how to apply the deposit methods of accounting, however, does not address many of the situations in which a deposit method of accounting is required for reinsurance and insurance contracts, and no clear way exists to apply deposit accounting methods to many of those contracts. This SOP would provide guidance on how to apply deposit accounting to reinsurance and insurance contracts; it will not address the circumstances under which deposit methods of accounting should be applied to such contracts.

AcSEC last discussed this project at its December 1995 meeting. AcSEC is scheduled to continue its discussion of this project in July.

Employee Benefit Plans (Staff: Susan Hicks). This project would amend the Audit and Accounting Guide *Audits of Employee Benefit Plans* and SOP 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans*. The project currently consists of three portions, which may be combined into a single SOP. They address—

- Issues related to employee health-and-welfare benefit plans that were not prevalent when SOP 92-6 was issued, including cost-sharing arrangements and amendments of plans to reduce benefits.
- The accounting for and disclosure of features of defined-benefit pension plans, provided pursuant to section 401(h) of the Internal Revenue Code, that allow sponsors of defined-benefit pension plans to fund a portion of their postretirement medical obligations related to their health-and-welfare benefit plans through their defined-benefit pension plans. The project would provide guidance for reporting by both defined-benefit pension plans and health-and-welfare benefit plans.
- The presentation in defined-benefit pension plan financial statements of information about investments in master trusts, and disclosure by all types of employee-benefit plans of investments in bank common and collective trusts, insurance-company pooled separate accounts, and shares of registered investment companies.

At its April 23–24 meeting, AcSEC voted to expose the draft SOPs and expects to release them for comment in the third quarter of 1996 if cleared by the FASB.

Environmental Remediation Liabilities (Staff: Frederick Gill). AcSEC added this project to its agenda in March 1993 based on a consensus reached at a January 1993 Environmental Issues Roundtable, sponsored by the AICPA, that (a) guidance was needed on recognizing and measuring environment-related liabilities, particularly with a focus on an entity's obligation to remediate environment-related problems arising from past activities and (b) financial statement preparers and auditors should be more knowledgeable about the signifcant federal laws on environmental remediation.

The proposed SOP consists of two parts: (1) a nonauthoritative discussion of major federal legislation dealing with pollution control (responsibility) laws and environmental remediation (cleanup) laws and the need to consider various individual state and other non-United States government requirements and (2) authoritative guidance on specific accounting issues that are present in the recognition, measurement, display, and disclosure of environmental remediation liabilities.

The proposed SOP provides —

- That environmental remediation liabilities should be accrued when the criteria of FASB Statement No. 5, *Accounting for Contingencies*, are met, and it includes benchmarks to aid in the determination of when environmental remediation liabilities should be recognized in accordance with FASB Statement No. 5.
- That an accrual for environmental liabilities should include (1) incremental direct costs of the remediation effort, as defined and (2) costs of compensation and benefits for employees to the extent an employee is expected to devote a significant amount of time directly to the remediation effort.
- That the measurement of the liability should include (1) the entity's allocable share of the liability for a specific site and the entity's share of amounts related to the site that will not be paid by other potentially responsible parties or the government.
- That the measurement of the liability should be based on enacted laws and existing regulations and policies, and on the remediation technology that is expected to be approved to complete the remediation effort.
- That the measurement of the liability should be based on the reporting entity's estimates of what it will cost to perform all elements of the remediation effort when they are expected to be performed and that the measurement may be discounted if the aggregate amount of the liability or component of the liability and the amount and timing of cash payments for the liability or component are fixed or reliably determinable.
- Guidance on the display of environmental remediation liabilities in financial statements and on disclosures about environmental-cost-related accounting principles, environmental remediation loss contingencies, and other loss contingency disclosure considerations.

The provisions of the proposed SOP would be effective for fiscal years beginning after December 15, 1996. Earlier application would be encouraged. The effect of initially applying the SOP would be reported as a change in accounting estimate. Restatement of previously issued financial statements would not be permitted.

Guaranty Fund and Certain Other Assessments (Staff: Elaine Lehnert). This SOP would provide guidance on accounting for assessments leveled against insurance enterprises by state guaranty funds for funding such items as insolvencies of other insurance enterprises. Practice in accounting for such assessments is currently diverse. Among the key issues are what event or events trigger a liability (e.g., the insolvency or the writing of the premium), whether the liability should be discounted, and whether state premium tax credits should be offset against the assessment during measurement.

In January 1995, AcSEC voted to approve an exposure draft of a proposed SOP that contained a two-event approach to liability-recognition. Under this approach, a liability would be recognized when premiums associated with an assessment have been written and the insolvency has occurred. The FASB discussed the draft exposure draft in May 1995, and three of the seven FASB members objected to exposure of the proposal.

Like a minority of AcSEC, the three objecting FASB members favored a one-event approach. Under the one-event approach, a liability is recognized when the insolvency has occured.

The Chair of AcSEC met with members of the FASB to discuss and explore the issues in the proposed SOP, in order for AcSEC to proceed with this project. The preparing task force has worked on strengthening the basis for conclusions and better describing the alternative view favored by a minority of AcSEC and the FASB. The FASB is expected to consider the proposed SOP in late June 1996.

Internal-Use Software (Staff: Daniel Noll). The Chief Accountant of the SEC asked the FASB's Emerging Issues Task Force (EITF) to develop guidance addressing the diversity in practice in accounting for the costs of computer software purchased or developed for internal use. The EITF and AcSEC agreed that AcSEC would be better suited to handle this topic.

In April 1996, AcSEC voted to expose the proposed SOP and expects to release it in the third quarter of 1996 if cleared by the FASB.

The proposed SOP would specify the characteristics of computer software that is considered to be internal-use software and would require the following:

- External direct costs of materials and services consumed in developing or obtaining internal-use computer software, payroll-related costs for employees who are directly associated with and who devote time to the internal-use computer software project, and interest costs incurred in developing computer software for internal use should be capitalized as a long-lived asset. Computer software costs that are research and development should be expensed as they are incurred in accordance with the provisions of FASB Statement No. 2, *Accounting for Research and Development Costs*.

- Proceeds received from the sale of computer software developed or obtained for internal use should be applied against the carrying amount of that software. No profit should be recognized until aggregate proceeds from sales exceed the carrying amount of the software.

Joints Activities of Not-for-Profit Organizations and State and Local Governmental Entities (Staff: Joel Tanenbaum). AcSEC added this project to its agenda at the request of the Not-for-Profit Organizations Committee. SOP 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, has been perceived to be difficult to implement and to be applied inconsistently in practice. This proposed SOP uses the model in SOP 87-2 as a starting point and clarifies guidance that was unclear, provides more detailed guidance, revises some guidance, and expands the scope to include all costs of joint activities, not only joint costs of joint activities.

This proposed SOP would apply to all not-for-profit organizations (NPOs) and state and local governmental entities that are required to report fund-raising expenses or expenditures, including entities that report such amounts by function. It would supersede SOP 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*.

This proposed SOP would require—

- That if the criteria of purpose, audience, and content as defined in this proposed SOP are met, the costs of joint activities that are identifiable with a particular function should be charged to that function and joint costs should be allocated between fund raising and the appropriate program or management and general function.
- That if any of the criteria of purpose, audience, and content is not met, all costs of the activity should be reported as fund-raising costs, including costs that are otherwise identifiable with program or management and general functions.
- Certain financial statement disclosures if joint costs are allocated.

Some commonly used and acceptable allocation methods are described and illustrated though no methods are prescribed or prohibited.

This proposed SOP would be effective for financial statements for years beginning on or after its issuance date. Earlier application would be encouraged for fiscal years for which financial statements have not been issued.

Motion Pictures (Staff: Richard Stuart). This project, which was undertaken by AcSEC at the request of the FASB, is a comprehensive reconsideration of the accounting for motion pictures. Since the issuance of FASB Statement No. 53, *Financial Reporting by Distributors and Producers of Motion Picture Films*, in 1981, the industry has undergone substantial changes. For instance, new forms of distribution such as videocassettes, cable television, and pay-per-view television have been introduced or have increased markedly in significance. Additionally, foreign markets have increased in significance.

In two discussions to date (March and April 1996), AcSEC reached the following tentative conclusions:

- Costs to produce and exploit a film would be capitalized and amortized, using the individual-film-forecast method, over the shorter of (a) the expected life of the film or (b) 10 years.
- Changes in estimates of ultimate revenues or ultimate expenses would be accounted for prospectively from the date of change, in conformity with APB Opinion No. 20, *Accounting Changes*.
- Capitalized costs of film projects that are abandoned would be expensed in the period in which the decision to abandon the project is made.
- Losses generated by episodic television programming would be recognized on a pro rata basis as each episode is delivered.
- FASB Statement No. 34, *Capitalization of Interest Cost*, would be applied to television programming.

A draft SOP will be discussed at the July 23 and 24 AcSEC meeting.

Participating Mortgages (Staff: Richard Stuart). This proposed SOP would provide guidance on the borrower's accounting for a participating mortgage loan if the lender participates in increases in the market value of the mortgaged real estate project, the results of operations of the mortgaged real estate project, or both. AcSEC added this project to its agenda in 1981.

An exposure draft was issued in July 1995. AcSEC discussed the comments received on the exposure draft at its March 1996 meeting and approved the proposed SOP for final issuance, subject to revisions and FASB clearance.

This proposed SOP provides that—

- The borrower should determine the fair value of the participation feature at the inception of the loan and should recognize a participation liability for that amount, with a corresponding debit to a debt-discount account. The debt discount should be amortized prospectively by the interest method, using the effective interest rate.
- Interest expense in participating mortgage loans consists of three components:

   a. Amounts designated in the mortgage agreement as interest

b. Amounts related to the lender's participation in operations

c. Amounts representing amortization of the debt discount related to the lender's participation in appreciation

- At the end of each period, the participation liability should be remeasured at fair value, with a corresponding debit or credit to the related debt-discount account. The revised debt discount should be amortized prospectively, using the effective interest rate.

Prepaid Health Care Costs (Staff: Elaine Lehnert). This project is being undertaken by a joint task force of the AICPA Health Care Committee and the AICPA Insurance Companies Committee in response to recent structural and operational changes occurring throughout the health care and insurance industries. The proposed SOP would address whether substantive differences in accounting for similar transactions entered into by health care organizations and insurance organizations should continue. The proposed SOP would amend the Audit and Accounting Guide *Health Care Organizations* and SOP 89-5, *Financial Accounting and Reporting of Prepaid Healthcare Services*, and it could amend *Audits of Stock Life Insurance Companies*.

In late May 1996, the FASB did not object to AcSEC's prospectus for the project.

The SOP would apply to all nongovernmental entities and potentially certain governmental entities.

Real Estate Joint Ventures (Staff: Richard Stuart). This proposed SOP would supersede portions of SOP 78-9, *Accounting for Investments in Real Estate Ventures*. AcSEC added this project to its agenda in 1991 in response to inconsistent practice, especially in the area of loss recognition, and a lack of guidance on reporting on unincorporated ventures. AcSEC approved a draft SOP for public exposure, subject to revisions and FASB clearance. The FASB is expected to discuss the draft in the third quarter of 1996.

The proposed SOP would require the following:

- Investors generally should account for their unconsolidated interests in real-estate joint ventures using the equity method. However, interests in certain ventures that are so minor (less than 5 percent) that the investor has virtually no influence over the operating and financial policies of the venture may be accounted for in accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, or using the cost method.
- Profits and losses recognized by an investor should be based on an analysis of how an increase or decrease in the investor's residual interest, determined in conformity with GAAP, will affect distributions to (or contributions by) the investor.
- An individual investor should not recognize earnings attributable to its investment in an unconsolidated real-estate joint venture if recognition of such earnings would result in increasing the carrying amount of the investor's investment to an amount greater than the total residual interest of the joint venture.
- An investor should recognize its share of real-estate joint venture losses if the joint venture's imminent return to profitable operations appears to be assured. If the joint venture's imminent return to profitable operations does not appear to be assured, an investor's recognition of losses from the joint venture in excess of the investment's carrying amount is based on the classification of the investor as either committed or uncommitted.

This proposed SOP would be effective for financial statements for fiscal years beginning after December 15, 1997, with earlier application encouraged.

Real Estate Loans that Qualify as Investments in Real Estate (formerly ADC Arrangements) (Staff: Richard Stuart). This proposed SOP would provide guidance on implementing the accounting guidance for acquisition, development, and construction (ADC) and similar arrangements that are classified as investments in real estate or real estate joint ventures, as described in the AICPA Notice to Practitioners on ADC Arrangements, which is carried forward in AcSEC Practice Bulletin No. 1, *Purpose and Scope of AcSEC Practice Bulletins and Procedures for Their Issuance*. The proposed SOP would not provide guidance on accounting for loans on operating properties; such loans fall under the scope of FASB Statement No. 114.

The project is temporarily delayed pending comments on the exposure draft of the proposed SOP on real estate joint ventures.

Software Revenue Recognition (Richard Stuart). This proposed SOP would supersede SOP 91-1, *Software Revenue Recognition*. Since the issuance of SOP 91-1, practice issues have been identified that AcSEC believes are not adequately addressed in SOP 91-1. In addition, AcSEC believes some of the guidance in SOP 91-1 should be amended.

Significant changes from SOP 91-1 would include:

- For arrangements including multiple products or services (multiple elements), the license fee should be allocated to the various elements based on vendor-specific objective evidence of fair value, regardless of any separate prices stated in the agreement. If sufficient vendor-specific objective evidence does not exist to make this allocation, all revenue from the arrangement should be deferred until such evidence does exist. (The proposed SOP lists certain exceptions to this guidance.)

- Revenue allocated to a particular element should be recognized upon delivery of the element, provided that collectibility is probable, the fee is fixed or determinable, and persuasive evidence of an agreement exists. If there are undelivered elements that are essential to the functionality of delivered elements, delivery is considered not to have occurred. Therefore, revenue would not be recognized for any element. Additionally, if the portion of the fee attributable to the delivered elements is subject to forfeiture, refund, or other concession if undelivered elements are not delivered, no portion of the fee meets the criterion of collectibility. Therefore, revenue would not be recognized, even for elements that have been delivered.

AcSEC approved a draft SOP for public exposure, subject to certain revisions and clearance by the FASB. At its May 22, 1996 meeting, the FASB did not object to the issuance of the ED.

Start-Up Costs (Staff: Daniel Noll). An AcSEC task force has developed a proposed SOP on accounting for the costs of start-up, preopening, and preoperating activities.

At its April 1996 meeting, AcSEC discussed an initial draft of an SOP that would prescribe the accounting for the costs of start-up activities. AcSEC tentatively concluded that organization costs would be excluded from the project's scope. AcSEC asked the task force to bring the draft back to AcSEC at a date yet to be determined.

Supplemental Current Value Reporting for Real Estate Companies (Staff: Richard Stuart). This proposed SOP would provide guidance on how real estate companies should present current value information and would specify a set of criteria against which auditors could judge its presentation. Presentation of such information would be voluntary.

AcSEC last discussed this project in May 1995. At that time, there was insufficient support to issue the document. Representatives of the real estate industry have met with members of the FASB to discuss issues related to accounting for income-producing real estate. The FASB elected not to address these issues.

Audit and Accounting Guide Projects in Process

AICPA Audit and Accounting Guides (Guides) identify other authoritative literature that preparers and auditors of financial statements of entities covered by those Guides should be aware of, and they often explain or illustrate the guidance in such other literature. In addition, Guides often establish guidance on accounting issues not addressed in other authoritative literature.

AGENDA DECISIONS

The Planning Subcommittee of AcSEC approved two prospectuses, subject to certain revisions, to be sent to the FASB for clearance. The proposed projects include:

a. An SOP that would resolve inconsistencies between the Banks and Savings Institutions Audit and Accounting Guide and the Audit and Accounting Guide on Brokers and Dealers in Securities concerning recognition of securities-contracts transactions at trade date or settlement date.

b. An Audit and Accounting Guide on accounting for construction-type and certain production-type contracts that would replace the 1981 Construction Contractors Audit and Accounting Guide.

The Planning Subcommittee removed from AcSEC's agenda the development of an Industry Accounting Guide for Insurance Agents and Brokers. A draft of that Guide was exposed for public comment on August 15, 1991. The exposure draft was not generally accepted by those parties who would have relied on the Guide.

Guidance in AICPA Guides that is based on provisions of other authoritative accounting and auditing literature is continually updated for "conforming changes"— changes in the authoritative literature upon which the guidance is based. In addition, Guides are revised completely when a need arises.

Currently, five existing Guides (for brokers and dealers in securities, credit unions, investments companies, health-care organizations, and life and health insurance entities) are being revised, three other Guides (for not-for-profit organizations) are being revised and consolidated into a single Guide, and two Guides are being developed for industries for which there previously were no Guides (for futures commission merchants and commodities pools and for real estate entities).

Brokers and Dealers in Securities would replace the 1985 *Audits of Brokers and Dealers in Securities*. The proposed Guide would require two changes in financial reporting:

- It would prohibit combining of subordinated debt with stockholders' equity.
- It would require that delayed-delivery transactions be reported in the statement of condition on the settlement (delivery) date instead of the trade date.

The changes would be effective for annual financial statements issued for fiscal years beginning after December 15, 1996, and for interim financial statements issued after initial application of the proposed Guide, with earlier application permitted. Restatement of comparative annual financial statements presented for earlier periods would be recommended but not required.

Credit Unions would replace the existing Guide *Audits of Credit Unions*. This project would either conform appropriate accounting provisions of the existing Guide to the new Guide *Banks and Savings Institutions* or incorporate the credit union guidance in the existing guide into *Banks and Savings Institutions,* depending on whether a combined guide could be made sufficiently user friendly.

Futures Commission Merchants and Commodity Pools would revise and expand the guidance on commodity futures and option transactions in the current edition of the broker-dealer Guide. This project is being undertaken in response to the evolution of dealers in commodity futures and options into an industry separate from the broker-dealer industry, to the significant growth of this new industry, and to the expansion of the array of products offered by the industry to include various financial instruments, energy products, and foreign currencies.

Health-Care Organizations would replace the 1989 Guide *Audits of Providers of Health Care Services* and its related SOPs.

In June 1993, the FASB issued FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. These Statements provide broad standards and introduce new concepts for which there is no detailed implementation guidance. As authorized in Statement No. 117, this proposed Guide would provide such guidance as it relates to providers of health care services. (Another proposed Guide, *Not-for-Profit Organizations*, which is discussed below, would provide such guidance as it relates to other entities covered by FAS 116 and FAS 117.)

The proposed Guide would define four types of operating structures that are found within the industry: (1) not-for-profit business-oriented organizations, (2) investor-owned health-care enterprises, (3) governmental health-care organizations, and (4) not-for-profit, nonbusiness-oriented organizations. Specific reporting guidance would be provided for each of the first three types of entities (not-for-profit nonbusiness-oriented organizations would follow the guidance in the proposed Guide *Not-for-Profit Organizations*).

The proposed Guide would, among other things —

- Recommend providing an income statement and a classified balance sheet.
- Encourage natural-class reporting on the face of the financial statements, with disclosure of functional details in the notes.
- Provide that donor-imposed restrictions on contributions of long-lived assets should be recognized when the asset is placed in service.
- Include an approach to recognizing income on investments that is similar to the approach in FASB Statement No. 115 (that is, trading securities would be differentiated from available-for-sale securities).
- Require the reporting of a performance indicator and provide guidance on appropriate descriptive terms for the performance indicator.

The proposed Guide would also include a definition of a governmental entity.

The proposed Guide would be effective for fiscal years beginning after June 15, 1996, with earlier application permitted. This Guide is expected to be available early in the third quarter.

Investment Companies would replace *Audits of Investment Companies*, which was issued in 1986 and which since then has only been updated for conforming changes. The draft being developed by the AICPA Investment Companies Committee will address how to enhance the usefulness of investment company financial statements to their users.

Among the accounting and reporting issues to be addressed are the level of detail that investment companies should report on their investments and issues concerning investment companies with complex capital structures, such as multiple-class and master-feeder investment companies. The Guide will differentiate accounting and reporting requirements that apply to all investment companies from additional requirements for SEC registrants.

Life and Health Insurance Entities would replace *Audits of Stock Life Insurance Entities*, which was issued in 1972. It would establish no new accounting guidance; it would, however, establish expanded or new audit requirements in certain areas.

Not-for-Profit Organizations would replace *Audits of Voluntary Health and Welfare Organizations*, *Audits of Colleges and Universities*, *Audits of Certain Nonprofit Organizations*, and a number of related SOPs. It would provide implementation guidance concerning FASB Statement No. 116 and 117 for all entities other than health-care entities.

The proposed Guide would provide, among other things, that—

- A not-for-profit organization that is a beneficiary of a split-interest agreement and is also the trustee for the arrangement should recognize the assets held under the trust at fair value and a liability for the present value of the expected future cash payments to be made to other beneficiaries. Contribution revenue would be reported for the present value of the cash flows expected to be received by the organization. If the not-for-profit organization is not the trustee, it would be required to recognize contribution revenue and an asset representing its right to receive future cash flows.

- Contributions of inventory should be reported in the period received and should be measured at fair value.
- The financial statements should disclose total fund-raising expenses.
- The financial statements should provide information about program expenses.

The proposed Guide would also include a definition of a governmental entity.

The proposed Guide would be effective for financial statements for periods ending on or after December 31, 1996. This guide is expected to be available by the end of August 1996.

Real Estate Entities would compile existing accounting and auditing guidance that is of particular significance to preparers and auditors of financial statements of real estate entities. It would establish no new accounting guidance.

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Comments or Suggestions?

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