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AcSEC UPDATE

A publication of the Accounting Standards Executive Committee of the AICPA

AICPA

American Institute of Certified Public Accountants

EFFECTIVE DATES

An SOP on Software Revenue Recognition is expected to be issued in early November 1997. This SOP will be effective for transactions entered into in fiscal years beginning after December 15, 1997, with earlier application encouraged. See Software Revenue Recognition on page 8.

SOP 97-1, *Accounting for Participating Mortgage Loan Borrowers*, for fiscal years beginning after June 30, 1997.

SOP96-1, *Environmental Remediation Liabilities* (Including Auditing Guidance), for fiscal years beginning after December 15, 1996.

Accounting and financial reporting provisions of the following Guides:

Banks and Savings Institutions, for financial statements issued for fiscal years ending after June 15, 1996, and for interim financial statements issued after initial application.

Health Care Organizations, for financial statements issued for fiscal years beginning after June 15, 1996, with earlier application permitted.

Not-for-Profit Organizations, for financial statements for periods ending on or after December 31, 1996.

Practice Bulletin 15, *Accounting by the Issuer of Surplus Notes*, for financial statements for fiscal years beginning after December 15, 1995.

NEW AcSEC MEMBERS

AcSEC will have six new members beginning in October 1997. They are: Mark M. Bielstein, Robert O. Dale, Joseph F. Graziano, David M. Morris, Benjamin S. Neuhausen, and Mark Sever.

The new members will replace Philip D. Ameen of General Electric, John C. Compton of Cherry, Bekaert & Holland, Leslie Coolidge of KPMG Peat Marwick, Edmund Coulson of Ernst & Young, G. Michael Crooch of Arthur Andersen, and R. Larry Johnson of Johnson Lambert & Co. David B. Kaplan of Price Waterhouse, an AcSEC member for the past three years, will become the Chairman of AcSEC.

Mark Bielstein has been a partner with KPMG Peat Marwick for the past 20 years. He recently started the second assignment of his career to the firm's Department of Professional Practice in New York. Previously, Mark served clients in a variety of industries in the firm's San Antonio office. Mark is a graduate of Baylor University.

Bob Dale is an audit partner in the Gainesville office of Purvis, Gray & Co.. He joined the firm in 1972 after graduating from the University of Florida. Bob served on the AICPA Private Companies Practice Section's Technical Issues Committee from 1990 to 1996 and chaired that committee from 1994 to 1996.

Joe Graziano is a partner with Grant Thornton. He has been the Eastern Regional Director of Assurance Services in the firm's national office for the past three years. Prior to joining the firm's national office, Joe served clients in a variety of industries in the firm's New York office. Joe is a graduate of Bernard Baruch College.

David Morris is Senior Vice President of The Chase Manhattan Bank and Financial Director of Corporate Accounting Policies. He has twice been a member of the AICPA Banking Committee and has also been a member of both the FASB Loan Fee Implementation Guide Task Force and the FASB Task Force on Present Values. Additionally, he chaired the Accounting Committees of the American Bankers Association and the Bank Administration Institute. Prior to Chase, he was a senior manager with Price Waterhouse.

Ben Neuhausen is a partner in the Professional Standards Group of Arthur Andersen in Chicago. Before joining the Professional Standards Group, Ben worked in the audit practice of Arthur Andersen in New York with clients in a variety of industries and was an FASB Fellow. Ben is a member of the FASB Task Force on Stock-Based Compensation and the Emerging Issues Task Force working group on physician practice management entities. In addition, he was a member of the AICPA Task Force on Employers' Accounting for ESOP Transactions and a special adviser to the FASB Task Force on Employers' Accounting for Postretirement Benefits.

Mark Sever is a Regional Director of Accounting and Auditing for Ernst & Young. He has been with Ernst & Young for 21 years. During his career, Mark was a Practice Fellow with the FASB. Mark's previous service includes the AICPA Information Retrieval Task Force and AcSEC's Financial Instruments Task Force. Mark is a graduate of the University of Notre Dame.

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.

SOP ON PARTICIPATING MORTGAGES ISSUED

In May 1997, AcSEC issued Statement of Position (SOP) 97-1, *Accounting by Participating Mortgage Loan Borrowers* (product no. 014886). This SOP establishes 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.

The SOP provides that —

- If the lender is entitled to participate in appreciation in the market value of the mortgaged real estate project, 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.

The SOP is effective for financial statements issued for fiscal years beginning after June 30, 1997. The effect of the initial application of the provisions of the SOP should be reported as a cumulative effect of a change in accounting principles. Presentation of pro forma effects of retroactive application is not required. Restatement is not permitted.

Editor: Frederick Gill

Administrative Editor: Sharon Macey

BROKER-DEALER GUIDE ISSUED

In April 1997, the AICPA issued a completely revised Audit and Accounting Guide *Audits of Brokers and Dealers in Securities* (product no. 012179). The new Guide will require two changes in financial reporting:

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

The changes will be effective for annual financial statements issued for fiscal years beginning after December 15, 1997, and for interim financial statements issued after initial application of the Guide, with earlier application permitted. Restatement of comparative annual financial statements presented for earlier periods is recommended but not required.

OTHER AcSEC ACTIVITIES

At its May, June, and July meetings, AcSEC approved comment letters on —

- Three Governmental Accounting Standards Board (GASB) EDs: *Governmental Reporting Model, Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, and *Accounting and Financial Reporting for Nonexchange Transactions*.
- Three International Accounting Standards Committee (IASC) EDs: *Impairment of Assets*, *Leases*, and *Accounting for Financial Assets and Financial Liabilities*.
- An ED of a proposed FASB Technical Bulletin, *Accounting under Statement 123 for Certain Employee Stock Purchase Plans with a Look-Back Option*.

Comment letters are available on the AICPA Web Site.

Upcoming AcSEC Meetings

AcSEC meetings are open to the public. For AcSEC agenda information, call the AcSEC Telephone Line: (212) 596-6008.

September 9-10, 1997 New York
October 22-23, 1997 New York
December 2-3, 1997 New York

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AcSEC's CURRENT SOP PROJECTS

As of August 31, 1997

Accounting for Discounts Related to Credit Quality (Staff: Jim Green) Financial Accounting Standards Board (FASB) Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*, requires that discounts be recognized as an adjustment of yield over an instrument's life. Practice Bulletin (PB) 6 further addresses accretion of discounts, which involves intertwining issues of accretion of discount, measurement of credit losses, and recognition of interest income. This project will consider whether PB 6's objectives and guidance continue to be relevant given a number of FASB pronouncements issued subsequent to PB 6 to address various related issues.

The proposed SOP would address:

- Initial measurement of discounts, including whether some or all discount should be classified as an allowance for credit losses when that discount is not expected to be accreted because related contractual cash flows are not expected to be collected.
- Subsequent measurement, including when the discount should or should not be accreted and the effects of accretion of subsequent changes in expected future cash flows.
- Whether loans purchased at a discount related to credit quality should be considered impaired at acquisition for purposes of measurement, disclosure, or both.
- Criteria to distinguish between loans originated and loans purchased.

At its September 1997 meeting, AcSEC will discuss a draft SOP with a view towards approving it for public exposure.

Application of Deposit Accounting to Certain Insurance and Reinsurance Contracts. (Staff: Elaine Lehnert) This project was undertaken because several recent authoritative pronouncements 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 deposit accounting, however, does not address many of the situations in which deposit accounting is required for reinsurance and insurance contracts, and no clear intuitive way exists to apply deposit accounting to many of those contracts. This proposed SOP would provide guidance on how to apply deposit accounting to reinsurance and insurance contracts; it will not address the circumstances under which deposit accounting should be applied to such contracts.

The proposed SOP specifies that insurance and reinsurance contracts for which the deposit method is appropriate should be classified into four different kinds, as follows:

1. Contracts that transfer neither significant timing nor underwriting risk.
2. Contracts that transfer only significant underwriting risk.
3. Contracts that transfer only significant timing risk.
4. Contracts with indeterminate risk.

The proposed SOP would adopt the interest method as described in FASB Statement No. 91 for insurance and reinsurance contracts that transfer only significant timing risk and insurance and reinsurance contracts that transfer neither significant timing nor underwriting risk.

Insurance and reinsurance contracts that transfer only significant underwriting risk would be accounted for by measuring the deposit based on the unexpired portion of the coverage provided until losses are incurred that will be reimbursed under the contracts. Once a loss is incurred under the contract, the deposit would be measured by the present value of the expected future cash flows arising from the contract plus the unexpired portion of the coverage provided. Changes in the recorded amount of the deposit would be included in the income statement of the insured as an offset to the loss that will be reimbursed under the contract.

Insurance and reinsurance contracts with indeterminate risk would be accounted for in a manner similar to the open-year method described in SOP 92-5, *Accounting for Foreign Property and Liability Reinsurance*.

At its March 12, 1997 meeting, the FASB did not object to the exposure of the proposed SOP providing certain changes are made. An exposure draft was issued on June 30, 1997. Comments are due September 30, 1997.

Certain Managed Care Arrangements. (Staff: Joel Tanenbaum) 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*

Continued on page 6

AcSEC AGENDA PROJECTS

		1997		1998
As of August 31, 1997	3Q	4Q	1Q	2Q
General Applicability				
Certain Managed Care Arrangements — SOP (page 4)			E	
Insurance-Related Assessments — SOP (page 6)		F		
Internal-Use Software — SOP (page 7)			F	
Start-Up Costs — SOP (page 9)			F	
Lending Institutions				
Discounts Related to Credit Quality — SOP (page 4)		E		
Banks and Savings Institutions, Credit Unions, and Finance Companies— SOP (page 6)			E	
Computer Software Industry				
Software Revenue Recognition — SOP (page 8)		F		
Employee Benefits Plans				
Certain Employee-Benefit-Plans Issues — SOP (page 6)		E		
Financial and Commodities Trading and Investment Industries				
Investment Companies — Guide (page 9)			E	
Insurance Industry				
Deposit Accounting for Certain Insurance and Reinsurance Contracts — SOP (page 4) (Timing beyond 2Q'98)				
Life and Health Insurance Entities — Guide (page 9)		E		
Mass Tort Exposure — SOP (page 7) (Timing beyond 2Q '98)				
Motion Picture Industry				
Motion Pictures —SOP (page 8)	E			
Not-for-Profit Organizations and Governments				
Joints Activities of Not-for-Profit Organizations and State and Local Governmental Entities — SOP (page 7)		F		
Real Estate Industry				
Real Estate Entities — Guide (page) (Timing to be determined)				
Real Estate Joint Ventures — SOP (page 8) (Timing to be determined)				
Real Estate Timesharing Transactions — SOP (page 8) (Timing to be determined)				

Codes: E—Exposure Draft
F—Final Pronouncement

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

The SOP addresses the following issues:

- *Bifurcation*. Should revenues be bifurcated between premiums and administrative fees?
- *Reinsurance*. Should reinsurance transactions be presented gross or net in the income statement?
- *Accounting for loss contracts*. For purposes of determining whether a premium deficiency exists: How should contracts be grouped? How should costs that do not vary with a contract or group of contracts be treated? Should anticipated investment income be considered?
- *Incurred but not reported (IBNR) claims*. Which costs should be accrued as IBNR?
- *Deferred acquisition costs*. Should acquisition costs be capitalized? If so, which costs should be eligible for capitalization?

AcSEC discussed a draft SOP in July 1997 and asked the task force to revise the draft using terminology distinct from that used in the insurance model to clarify that the guidance in the document applies to fee-for-service arrangements that are not insurance.

Employee Benefit Plans. (Staff: Wendy Frederick) 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 addresses—

- 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.
- Elimination of the requirement for defined contribution pension plans to report separate investment fund option information as required by PB 12, *Reporting of Separate Investment Fund Option Information by Defined-Contribution Pension Plans*.

At its April 1996 meeting, AcSEC voted to expose the draft SOP, subject to FASB clearance. The FASB discussed the first issue above at its September 18, 1996 meeting but did not clear the proposed conclusions. Revised conclusions will be resubmitted to AcSEC, and clearance by the FASB is expected in the fourth quarter.

Financial Institutions: Banks, Credit Unions, Finance Companies, and Savings Institutions. (Staff: Jim Green) AcSEC is undertaking an SOP project to reconcile the specialized accounting and financial reporting guidance established in the existing Guides, *Banks and Savings Institutions*, *Audits of Credit Unions*, *and Audits of Finance Companies*. The final provisions would be incorporated in a final combined Guide, *Financial Institutions: Banks, Credit Unions, Finance Companies, and Saving Institutions*.

Insurance-Related Assessments. (Staff: Elaine Lehnert) This SOP will provide guidance on accounting by insurance and other enterprises for guaranty-fund and certain other insurance-related assessments. Many states have established funds that levy assessments against enterprises for funding such items as insolvencies for insurance enterprises and second-injury funds. In addition, the SOP applies to enterprises that "self insure" against loss or liability.

This SOP will provide guidance on accounting by insurance and other enterprises for insurance-related assessments. The SOP states that:

- An enterprise should recognize a liability for guaranty-fund and other insurance-related assessments when all of the following conditions are met:
  a. An assessment has been asserted, or information available prior to issuance of the financial statements indicates it is probable that an assessment will be asserted.
  b. The underlying cause of the asserted or probable assessment has occurred on or before the date of the financial statements.
  c. The amount of assessment can be reasonably estimated.
- For premium-based assessments, the event that obligates the member insurer is a member insurer's writing the premiums or becoming obligated to write or renew (such as multiple-year, noncancelable policies) the premiums on which the assessments are expected to be based. Some states, through law or regulatory practice, provide that an insurance enterprise cannot avoid paying a particular assessment even if that insurance enterprise reduces its premium writing in the future. In such circumstances, the event that obligates the member insurer is a formal determination of insolvency.
- For loss-based assessments, the event that obligates a member insurer is a member insurer's incurring the losses on which the assessments are expected to be based.

The SOP will provide guidance on how to measure the liability and allows for the discounting of the liability if the amount and timing of the cash payments are fixed and reliably determinable. It will also provide criteria for when an asset may be recognized for a portion or all of the assessment liability or paid assessment that can be recovered through premium tax offsets or policy surcharges.

The SOP will be effective for financial statements for fiscal years beginning after December 15, 1998, with early adoption encouraged. Restatement of previously issued annual financial statements will not be permitted. The effect of initial adoption the SOP will be treated as a cumulative effect of a change in accounting principle.

AcSEC approved the proposed SOP at its June 1997 meeting, and, at its August 6, 1997 meeting, the FASB did not object to the final issuance of the SOP, subject to certain revisions.

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 December 1996, AcSEC released an exposure draft of a proposed SOP *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. The proposed SOP would apply to all nongovernmental entities.

At its July 1997 meeting, AcSEC discussed comment letters received on the exposure draft and decided on a course of action. AcSEC reaffirmed its position in the exposure draft that costs of computer software developed or obtained for internal use should be reported as assets. AcSEC noted that about two-thirds of the comment letters supported the exposure draft on an overall basis.

In response to financial statement users' and others' concerns regarding aspects of the document, AcSEC directed its Internal-Use Software Task Force to—

a. Develop examples for the recognition and measurement of impairment.
b. Improve disclosure requirements.
c. Limit capitalizable costs to those identified in the exposure draft.
d. Develop a proposal for whether data conversion costs should be included in the project's scope and, if so, propose an appropriate accounting treatment.
e. Develop guidance to expense as incurred the costs of maintenance and upgrades/enhancements.

AcSEC noted that the EITF will be addressing accounting issues related to reengineering costs. AcSEC will review a revised draft of the SOP and decide on an effective date at its September 1997 meeting.

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 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 SOP will 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 will supersede SOP 87-2.

This SOP will require—

- That if the criteria of purpose, audience, and content as defined in the 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 are 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, except for costs of goods or services provided in exchange transactions.
- 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 SOP will be effective for financial statements for years beginning on or after December 15, 1997. Earlier application will be encouraged for fiscal years for which financial statements have not been issued.

The FASB cleared the SOP for issuance, subject to certain revisions. It is expected to be issued in the fourth quarter of 1997.

Mass Tort Exposure of Insurance Enterprises. (Staff: Frederick Gill) This proposed SOP would—

a. Include guidance on specific accounting issues that are present in the recognition of the various components of liabilities for mass tort exposures, including environmental and asbestos claims, in the financial statements.
b. Address how the various components of mass tort exposure liabilities are measured.
c. Consider applying present value concepts to mass tort exposure liabilities.
d. Include an educational discussion of the various methodologies and assumptions that are used to estimate mass tort exposure liabilities.
e. Specify the disclosures to be provided in the notes to the financial statements for insurance enterprises.

Expansion of this project into an SOP that provides auditing guidance in addition to accounting guidance is not precluded.

On February 12, 1997, the FASB did not object to AcSEC's prospectus for this project.

Motion Pictures. (Staff: Richard Stuart) This project was undertaken by AcSEC at the request of the FASB.

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.

At AcSEC's January 1997 meeting, considerable discussion focused on a minority view drafted by certain members of AcSEC who had concerns about previous tentative conclusions reached by AcSEC. A sense of AcSEC indicated that there was insufficient support for the tentative package of conclusions. It was agreed that the project would be divided into two stages. The first stage would have as its objective the issuance of an SOP that would interpret FASB Statement No. 53 and address areas in which there is diversity in practice. The second stage would reconsider the overall model in place for accounting for motion pictures. AcSEC discussed the first stage at its May 1997 meeting.

During the discussion, it was determined that the revised approach would require a new prospectus to be cleared by the FASB. At a meeting in June 1997, the FASB objected to the revised approach. As a result, AcSEC has reverted to the original approach.

At its September 1997 meeting, AcSEC will discuss task force recommendations to resolve the issues discussed in the minority view.

Real Estate Timesharing Arrangements. (Staff: Richard Stuart) AcSEC added this project to its agenda at the request of the Real Estate Committee. Because of a lack of guidance specific to real estate timesharing transactions, diversity has arisen in practice. The SOP would attempt to reduce the diversity.

Issues to be addressed in this proposed SOP include:

- Which revenue recognition method should be used?
- How should reserves for cancellation of leases be determined?
- What kinds of selling costs may be deferred?

AcSEC will hold its initial discussion of this project at its September 1997 meeting.

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.

At its July 1997 meeting, AcSEC reached a tentative conclusion that the equity method should be used to account for unconsolidated investments in real estate ventures, except for limited partnership investments that are immaterial to the investor.

The other significant tentative conclusion reached by AcSEC at the July meeting was that earnings and losses from these equity-method investments should be determined based on changes in the investor's residual interest in the investee. The residual interest is defined as the amount an investor would receive (or be obligated to pay) if the venture were to distribute, in accordance with the priority provisions of the venture agreement, all of its assets and liabilities determined in accordance with GAAP.

AcSEC will continue its discussion of this project at its December 1997 meeting.

Software Revenue Recognition. (Staff: Richard Stuart) This SOP will 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 will 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 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.

In August 1997, the FASB did not object to issuance of a final SOP. The SOP will be effective for transactions entered into in fiscal years beginning after December 15, 1997, with earlier application encouraged as of the beginning of fiscal years or interim periods for which financial statements or information have not been issued. Retroactive application will not be permitted.

Start-Up Costs. (Staff: Daniel Noll) This project is the next phase in AcSEC's broad project on similar costs. The first phase of the broad project resulted in SOP 93-7, *Reporting on Advertising Costs*.

AcSEC released an exposure draft of a proposed SOP *Reporting on the Costs of Start-Up Activities* in the second quarter of 1997. The proposed SOP, which would apply to all nongovernmental entities, would require that entities expense all costs of start-up activities as they are incurred. The comment deadline was July 22, 1997. AcSEC will discuss the comment letters at its October 1997 meeting.

AUDIT AND ACCOUNTING GUIDE PROJECTS IN PROCESS

AICPA Audit and Accounting Guides (Guides) point out guidance in 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 such guidance. In addition, Guides often establish guidance on accounting issues not addressed in other authoritative literature.

Guidance in AICPA Guides that is based on guidance in 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, four existing Guides (for credit unions, finance companies, investments companies, and life and health insurance entities) are being revised, and one Guide is being developed for an industry for which there previously was no Guide (for real estate entities). In addition the Planning Subcommittee of AcSEC has approved a project to revise the Construction Contractors Guide and potentially the Guide for federal government contractors.

Financial Institutions: Banks, Credit Unions, Finance Companies, and Savings Institutions AcSEC is undertaking an SOP project to reconcile the specialized accounting and financial reporting guidance established in the existing Guides, *Banks and Savings Institutions*, *Audits of Credit Unions*, and *Audits of Finance Companies*. The final provisions would be incorporated in a final combined Guide, *Financial Institutions: Banks, Credit Unions, Finance Companies, and Saving Institutions*.

Investment Companies *Audits of Investment Companies*, which was issued in 1986 and which since then has been updated only for conforming changes, would be replaced. 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.

The accounting and reporting issues encompass how unit investment trusts (UITs) account for offering costs, liabilities for excess-expense plans, and complex capital structures.

The proposed Guide was approved for exposure by AcSEC at its June meeting. AcSEC is expected to meet with FASB in the fourth quarter of 1997 to obtain the Board's approval for public exposure. The exposure draft is expected to be released for public exposure in the first quarter of 1998.

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

Real Estate Entities This proposed Guide would compile existing accounting and auditing guidance that is of particular significance to preparers and auditors of financial statements of real estate entities. The Real Estate Committee has been asked to identify issues that have arisen in practice and require resolution. A revised prospectus will be considered by the Planning Subcommittee of AcSEC.

Futures Commission Merchants and Commodity Pools The proposed Audit and Accounting Guide for future commission merchants and commodity pools will now be issued as a nonauthoritative practice aid. The practice aid will contain regulatory, auditing, and accounting guidance on commodity futures and option transactions. The practice aid is expected to be available for publication in the second quarter of 1998.

AcSEC Telephone Line and AICPA Web Site

The AcSEC Telephone Line announces upcoming AcSEC meetings and most recent AcSEC publications. The line is accessible 24 hours a day and can be reached by calling from a touch-tone phone (212) 596-6008.

Also look for information about AcSEC activities on the AICPA Web Site, "AICPA Online." The AICPA Web site address is: http://www.aicpa.org.

ELIZABETH FENDER TO HEAD AcSEC STAFF;JANE ADAMS NAMED SEC DEPUTY CHIEF ACCOUNTANT

Elizabeth A. Fender, CPA has been named Director, Accounting Standards at the AICPA. Liz will be replacing Jane B. Adams, who has become Deputy Chief Accountant of the Securities and Exchange Commission.

Liz will be responsible for directing the activities of the AICPA's accounting standards team and for providing technical support to AcSEC and related committees and task forces.

Liz comes to the AICPA from the FASB, where she was a Project Manager. During her 9 years on the FASB staff, Liz managed the project on segment disclosures and also worked on the projects on stock compensation, consolidations, distinguishing between liabilities and equity, and consolidations and new basis accounting. Liz also participated in a 10-month staff exchange with the Australian Accounting Research Foundation.

Liz graduated from Simmons College and obtained her initial experience with Price Waterhouse.

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Comments or Suggestions?

We would welcome any comments or suggestions you may have concerning this publication. Write to Frederick Gill at AICPA, 1211 Avenue of the Americas, New York, NY 10036–8775 (fax 212–596–6064).

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