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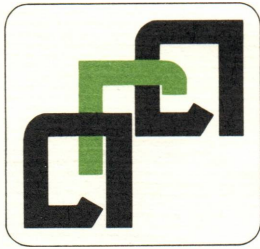
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Accounting Research Association

newsletter

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, 666 FIFTH AVE., NEW YORK, N.Y. 10019

Vol. V, No. 1

January 28, 1972

APB ANNOUNCEMENT ON FOREIGN OPERATIONS

At its January 24-26 meeting the Accounting Principles Board authorized the following statement: "The APB has deferred action on the December 20, 1971 exposure draft of a proposed APB Opinion -- Translating Foreign Operations pending publication of the accounting research study on this subject and further study of the unique problems caused by devaluation of the U.S. dollar. The Board appreciates the excellent comments received on the exposure draft and will take them into consideration in its future deliberations.

"The Board has observed a divergency of accounting and reporting practices in this area. Most recently, some adjustments resulting from translating long-term foreign currency receivables and liabilities at current rates have been deferred for amortization over future periods, thus achieving somewhat the same effect as translating them at historical rates which is also presently permitted. The Board believes that a delay will provide an opportunity to study thoroughly the current alternatives before issuing an Opinion which will narrow the differences. In the meantime, however, the Board encourages companies to disclose their accounting policies as to the determination of and accounting for translation adjustments."

(The accounting research study, Reporting Foreign Operations of U.S. Companies in U.S. Dollars, is expected to be published in late spring. It proposes the "temporal" principle of translation, which is generally similar to the monetary/nonmonetary approach. The study analyzes the deferral method of treating translation adjustments and concludes that gains and losses should be recognized in the period in which the exchange rate is changed.)

STOCK COMPENSATION PLANS

A draft Opinion on Accounting for Stock Compensation Plans, is being prepared for APB consideration for possible exposure within the next two months. Among other things the draft proposes that the measurement date to determine compensation cost under stock option, purchase or bonus plans is the date on which the number of shares and the option or purchase price are known.

For the traditional plans discussed in Chapter 13-B of ARB No. 43, the measurement date continues to be the date of grant or award. For some new types of plans which use a formula to determine the number of shares an employee will receive or the amount an employee will pay to receive a fixed number of shares, the measurement date is the date both the number of shares and the amount are determinable.

Also the draft will state that compensation cost should be measured in terms of quoted market price of the shares of stock at the measurement date of the option, purchase, or bonus right less the amount the employee is required to pay to acquire the stock.

(continued)

RETIREMENT OF DEBT

A draft Opinion is being prepared for discussion at the March APB meeting, for possible exposure shortly thereafter. The draft will state that gains or losses on early extinguishment of debt (including convertible debt) should be reflected in the income statement for the period in which the early extinguishment occurs.

OTHER APB MATTERS

The Board also discussed two other subjects -- the first dealing with whether marketable equity securities should be carried at market value in the balance sheet and if so, what effect such accounting should have on net income. The other was whether a financing lease is the equivalent of an installment sale for the lessor and the equivalent of an installment purchase for a lessee and if so what are the criteria for such determination. No definitive decisions were reached on either of these items.

FUNDS STATEMENTS FOR INVESTMENT AND REAL ESTATE COMPANIES

An accounting interpretation to be published in a forthcoming issue of The Journal of Accountancy, will state that a "statement of changes in net assets" included among the financial statements of mutual funds, "closed end" companies and common trust funds will meet the provisions of APB No. 19 Reporting Changes in Financial Position. This same conclusion would also apply to a "statement of funds generated and disbursed" included with the financial statements of a real estate investment company.

FILM INDUSTRY ACCOUNTING

A revised exposure draft of a position paper on "Accounting for Revenue from Films Licensed to Television" has been released by the committee on accounting in the entertainment industries. The draft recommends the "sales" method of recognizing revenue from the licensing of films to television. Under this method revenue would be recognized only after the commencement of the license period and after certain other conditions have been met. Copies of the draft, on which comments are due by March 31, are available, upon written request, from the Institute's auditing and reporting division.

LONG-TERM INVESTMENTS

A proposed revision to Statement on Auditing Procedure No. 34 entitled "Long-Term Investments" is now being exposed to AICPA practice units, among others, by the committee on auditing procedure. It reflects the changes incorporated in APB Opinion No. 18 which was issued in March 1971. Comments are due by March 13 and additional copies are available, upon written request, from the Institute's auditing and reporting division.

HEALTH AND WELFARE AUDIT GUIDE

The guide on Audits of Employee Health, Welfare and Benefit Plans has been cleared for publication in early March. Cost to members is \$2.20.

LAND DEVELOPMENT COMPANIES

The Institute has issued a statement referring to recent press reports on possible changes in accounting for land development companies as "purely speculative." It points out that the Institute study is exploratory and "does not necessarily reflect adversely on present practices."