1972

Accounting Research Association Newsletter, Volume V, Number 3, March 14, 1972

American Institute of Certified Public Accountants. Accounting Research Association

Accounting Research Association

newsletter

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

VOL. V, No. 3 March 14, 1972

APB APPROVES TWO OPINIONS FOR BALLOT

At its meeting on March 8-10, the Accounting Principles Board agreed to prepare, for formal ballot, two proposed Opinions. Disclosure of Accounting Policies will state, in substance, the same positions set forth in the exposure draft. Accounting for Income Taxes -- Special Areas is also similar to the exposure draft except that disclosure of undistributed earnings of subsidiaries on which U. S. tax has not been provided has been substituted for disclosure of the estimated amount of taxes that would be payable if those earnings were remitted currently. (See ARA Newsletter, Dec. 15, 1971.)

If the necessary two-thirds votes are achieved, the proposed Opinions will be published next month.

DRAFT ON STOCK COMPENSATION PLANS TO BE EXPOSED

The Board voted to expose the proposed draft Opinion on Accounting for Stock Compensation Plans next month and reaffirmed the major conclusions previously reported in the January 28, 1972 ARA Newsletter (Vol. V, No. 1 incorrectly dated 1971 on some copies). To eliminate unintended effects, the treatments of plans containing cash elections, and certain bonus plans for past services were refined.

PROPOSALS ON EXTRACTIVE INDUSTRIES TO BE CONSIDERED

A draft of a proposed APB Opinion on accounting and reporting in the oil and gas industry will be prepared by the APB committee on extractive industries for consideration by the APB at a future meeting. The draft Opinion will propose that individual companies, including their existing or created subsidiaries, must use either the "field" or the country as the cost center for the accumulation of preacquisition costs, property acquisition and carrying costs, and post discovery costs.

Under the tentative proposals, companies selecting the "field" as the cost center would charge to income, on an experience basis, those preacquisition costs not expected to result in the acquisition of properties. Preacquisition costs expected to result in acquisition of property as well as property acquisition and carrying costs would be deferred and charged to income under a logical and systematic method. Upon discovery of a "field" the total gross costs directly related to the "field" would be capitalized as part of the costs of the "field". Costs of exploratory dry holes would be charged to income as incurred.

Companies selecting the country as a cost center would defer all such costs initially.

(continued)

Post discovery costs, such as intangible drilling and development costs on successful wells and the cost of development dry holes and other related costs would be capitalized, irrespective of whether a company uses the field or the country as the cost center, and amortized on the basis of the oil and gas reserves (center by center) by the unit of production method. Capitalized costs should not exceed the fair market value of the related oil and gas reserves plus the fair market value of undeveloped properties (limited to the carrying value of those undeveloped properties).

The draft will also propose tentatively that companies should disclose data regarding oil and gas reserves and exploration, acquisition and development program expenditures.

Also under consideration by the Board is the question of whether tax effect accounting should be applied to intangible drilling and development costs and other costs which will be capitalized but for which tax deductions are taken immediately. The draft Opinion will tentatively propose that tax-effect accounting is required in this area.

ACCOUNTING FOR LEASES

The Board, without reaching any conclusions on content, instructed its committee on leases to approach this project in three steps: (1) accounting for leases by manufacturer or dealer lessors, (2) accounting for leases by third party lessors, and (3) accounting for leases by lessees, including measurement, disclosure and clarification of present capitalization criteria. The committee will prepare drafts on this basis for future Board consideration.

SAVOIE TO LEAVE INSTITUTE POST

Leonard M. Savoie, the Institute's executive vice president, reported to the Board of Directors on March 3 that he would not seek renewal of his employment contract which expires on June 30, 1972.

In publicly announcing this decision Walter Oliphant, president, said that Mr. Savoie "filled this post with great energy and distinction. During his tenure the profession formulated numerous new accounting guidelines designed to provide increased information for the investing public. Mr. Savoie has not yet announced his future plans, nor has the AICPA yet considered a successor. He will remain in his present post until the completion of his contract on June 30."

BROKER-DEALER DISCLOSURE OF AUDITOR CHANGE PROPOSED

In Release No. 9482 the SEC proposed that broker-dealer disclose a change in auditor on a basis similar to the requirements in the present Form 8K for other companies under SEC jurisdiction. This move is supported by the Institute's committee on stock brokerage accounting and auditing.

HOSPITAL AUDIT GUIDE APPROVED FOR PUBLICATION

The Hospital Audit Guide has been cleared by the APB chairman and publication is expected in May, following some redrafting of portions of the text.