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## **Report of the Accounting Principles Board, September 1967; Report of the Fiscal Committee; Report of the Accounting Research Division**

American Institute of Certified Public Accountants. Accounting Principles Board

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REPORT OF THE ACCOUNTING PRINCIPLES BOARD

To the Council of the American Institute  
of Certified Public Accountants

The Accounting Principles Board has held two meetings since its last report to Council -- one in June and the other in August. Future meetings have been scheduled for October and December. Five additional meetings have been scheduled between January 1968 and the annual meeting next year. As you know, Board meetings are supplemented by numerous subcommittee meetings, extensive correspondence and telephone calls between meetings.

Projects Completed

- a. Disclosure of Supplemental Financial Information by Diversified Companies was issued this month, and you should have received your copy by now. This Statement is not an "Opinion of the Accounting Principles Board" as contemplated in the Special Bulletin, Disclosure of Departures from Opinions of the Accounting Principles Board, October 1964. It was issued as a special report for the information and assistance of members of the Institute and others interested in this subject. The Board may issue similar Statements in the future when it appears that preliminary analyses or observations should be given on accounting matters in advance of research and study by the Board. In essence, the Statement urges diversified companies to review their own circumstances carefully and objectively with a view toward disclosing voluntarily -

supplemental financial information as to industry segments of the business.

- b. The chairman approved, for re-exposure, an AICPA Industry Audit Guide on Generally Accepted Accounting Principles for the Banking Industry which was prepared by the AICPA committee on bank accounting and auditing.

### Projects in Process

Accounting for Income Taxes - was approved for exposure at the August meeting of the Board and has been distributed for comment to industry, government, educators and others interested in financial reporting. This proposed Opinion is expected to generate considerable discussion and comment in the financial community. Accordingly, it was decided that all AICPA members should be fully informed as to the tentative conclusions of the Board on this matter at the same time as those within and without the Institute to whom copies of exposure drafts are normally distributed. Without doubt, the subject matter of this proposed Opinion is one of the most complicated and controversial considered by the Board to date.

I would be remiss if I did not mention the tremendous amount of time devoted by the members of the APB subcommittee who were charged with the responsibility of drafting this Opinion. To illustrate, you should know that they met with 24 separate government agencies and industry associations over a period of approximately two weeks just prior to the August Board meeting. The purpose of these meetings was to obtain informal comments from these groups on the tentative conclusions reached by the subcommittee on the matter of accounting for income taxes, and to report back to the Board the results of these meetings. This same procedure was also used during

the development of the pension Opinion, and was quite successful. The expanded effort by the tax subcommittee in this area has, in my opinion, again proved to be a worthwhile effort.

The Board also approved an exposure draft of an Omnibus Opinion for 1967, which was distributed to interested parties during the week of August 28, 1967. This tentative Opinion deals with a number of relatively specific, but nonetheless important, matters.

We have asked that comments on the Omnibus Opinion - 1967 be submitted to us by October 30, 1967, and that comments on Accounting for Income Taxes be submitted to us by November 20, 1967. Both of these Opinions will be considered by the Board at its December meeting and it is expected that they will become effective for fiscal periods beginning after December 31, 1967.

The proposed Opinion on Financial Statements Restated for Price-Level Changes is moving along very well and it is expected that the Board will approve an exposure draft of this proposed Opinion at its October 24-26, 1967 meeting.

The preparation of a draft Opinion on Fundamentals of Financial Accounting is moving along satisfactorily. It is expected that a draft of the proposed Opinion will be available for consideration by the Board at its January 1968 meeting. We are still projecting issuance in 1968.

Point outlines on rate-regulated industries, accounting changes (procedures involved when changes are made in the application of accounting principles) and the meaning of substantial authoritative support have been distributed to the Board. Preparation of point outlines is an extremely effective way of directing attention to matters of substance early in the process of the development of an Opinion and has been a major factor in accelerating the progress of the Board.

APB Opinion No. 9

The subcommittee which drafted APB Opinion No. 9 has been reactivated and requested to review experience in the application of Opinion No. 9 with particular reference to paragraph 33 and the questions of "participating rights" and "residual securities." The subcommittee is preparing a series of memoranda for the Board outlining what appear to be the problem areas and recommending solutions. It is expected that this matter will be considered by the Board at its October meeting.

APB Opinion No. 10

A group of investment banking and law firms has requested the Board to give further consideration to the requirements imposed by paragraphs 8 and 9 of APB Opinion No. 10. As you know, these paragraphs deal with convertible debt and debt issued with stock warrants and require such convertible debt to be treated on a discount basis for accounting purposes. This group has expressed concern about possible serious financial tax and legal consequences that might result from such accounting and urges that it be reconsidered.

In response to this request, an APB subcommittee has been appointed to investigate the nature of these objections and report its findings and recommendations to the Board at its October 1967 meeting.

Other Projects

Two other projects, which are in earlier stages of development are: a restudy of Opinion No. 5 (Leases) and interim financial statements.

Looseleaf Edition of ARBs and APB Opinions

Work on the preparation of a looseleaf edition of ARBs and APB Opinions is proceeding satisfactorily. We are still projecting that the looseleaf edition will be available by the end of the calendar year.

When we reported to you last spring, it was indicated that our projected target dates called for the issuance of five Opinions before the end of this calendar year. Since it is now expected that we will issue at the most two Opinions and one Statement, we will fall short of that estimate. This does not mean, however, that the Board has diminished its efforts in carrying out its assignments. On the contrary, as evidenced by the foregoing you will quickly recognize that quite the opposite is true.

Respectfully submitted,

CLIFFORD V. HEIMBUCHER, Chairman  
Accounting Principles Board

September 1967

REPORT OF THE FISCAL COMMITTEE

The fiscal committee of the Accounting Principles Board reviewed the budget prepared by the controller, administrative director of the Accounting Principles Board and director of accounting research at the beginning of the year. The committee has also reviewed the controller's comparisons of the actual expenditures of the Accounting Research Division and the Accounting Principles Board's administrative division for the year ended August 31, 1967 with the related budget amounts. This examination indicates satisfactory control of expenditures of the overall accounting research program. The aggregate expenditures for the program for the past year are within the budget amounts. However, it should be noted that a very substantial amount of work is being performed by accounting firms, at no charge, on research and other projects undertaken by them.

Respectfully submitted,

JOHN W. QUEENAN, Chairman

September, 1967



REPORT OF THE ACCOUNTING RESEARCH DIVISION

Once again, it is my pleasure to report to Council changes in the status of accounting research projects since the last Council meeting in May 1967.

Published Accounting Research Studies

Sales of accounting research studies through August 31, 1967 are:

	<u>Copies</u>
"Basic Postulates of Accounting"	53,016
"'Cash Flow' and the Funds Statement"	57,750
"A Tentative Set of Broad Accounting Principles for Business Enterprises"	47,381
"Reporting of Leases in Financial Statements"	38,355
"A Critical Study of Accounting for Business Combinations"	30,915
"Reporting the Financial Effects of Price-Level Changes"	28,436
"Inventory of Generally Accepted Accounting Principles for Business Enterprises"	67,060
"Accounting for the Cost of Pension Plans"	23,466
"Interperiod Allocation of Corporate Income Taxes"	<u>15,967</u>
Total	<u>362,346</u>

The total number sold for the 1966-67 fiscal year is 68,994.

Research Projects in Progress

Five project advisory committees have been or will be scheduled to meet in the near future. The respective committees will consider second drafts of Accounting for Goodwill by George R. Catlett and Norman O. Olson and Accounting for Intercorporate

Investments by Samuel R. Hepworth and Reed K. Storey; first drafts of Financial Reporting in the Extractive Industries by Robert E. Field and Accounting for Foreign Operations in the Financial Statements of U. S. Companies by Samuel R. Hepworth; and a research proposal and tentative outline of The Concept of Materiality by Kenneth W. Stringer. Work continues on the second draft of Accounting for Research and Development Expenditures by Oscar S. Gellein and Maurice S. Newman and the first draft of Accounting for Stockholders' Equity by Beatrice Melcher.

Two new accounting research projects have been authorized since the last meeting of Council. A project on international accounting problems is expected to deal broadly with accounting in the international setting and will go considerably beyond the present foreign operations study, which is nearing completion, which deals primarily with the reporting of foreign operations of U. S. companies. The other newly authorized project will deal with the general area of reserves. At this point, both projects are in the preliminary planning stage.

Preliminary work has begun on two projects previously authorized. Loyd C. Heath of the accounting research staff will study the working capital concept. The accounting research staff has done work on the project presently called "Asset Valuation and Income Determination," which is conceived of as the second stage in the Board's project on the fundamentals of financial accounting. No author has been selected.

Four projects previously authorized are presently in an inactive status. Projects on inventory pricing and depreciation methods have been deferred because they depend on and logically

follow the Board's proposed Opinion on the Fundamentals of Financial Accounting and the projected accounting research study on valuation and income determination. Authorized projects on other accounting authorities and historical summaries of financial information have been assigned low priority and will await the completion of other more important studies.

#### APB Assignments to the Accounting Research Division

The Accounting Research Division has continued to provide staff assistance to two Board subcommittees in preparation of proposed Board Opinions, both of which are progressing: (1) the subcommittee on the Fundamentals of Financial Accounting in its consideration of basic concepts, broad accounting principles, and terms of art, and (2) the subcommittee on Price-Level Changes.


#### Personnel

The permanent staff of the Accounting Research Division consists of six research and three clerical and administrative personnel. In addition to the six partners in accounting firms who are engaged as authors of the accounting research studies in process already listed, the Division has been most fortunate in having the services of five partners and managers in accounting firms and three university professors on various projects. They are (in the order they began to work with the Division): Kenneth P. Johnson and James B. Alfano, Lybrand, Ross Bros. & Montgomery, Foreign Operations; Thomas Lynch, Ernst & Ernst, Intercorporate Investments; Gerhard G. Mueller, University of Washington, Foreign Operations; Walter P. Schuetze, Peat, Marwick, Mitchell & Co., Materiality; Maurice Moonitz, University of California, Berkeley, first Director of Accounting Research and presently on leave to

serve as Founding Director, The Lingnan Institute of Business Administration, The Chinese University of Hong Kong, Intercorporate Investments; Raymond E. Perry, Touche, Ross, Bailey & Smart, Intercorporate Investments and Foreign Operations; and Russell Taussig, Columbia University, Materiality.

Thomas W. McRae, CPA, formerly with the San Francisco office of the California Division of Corporations, joined the staff on July 1, 1967.

Respectfully submitted,

  
Reed K. Storey, Director  
Accounting Research

September 23, 1967