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## Report of the Accounting Principles Board; Report of the Fiscal Committee; Report of the Accounting Research Division

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

666 FIFTH AVENUE  
NEW YORK, N. Y. 10019

Ref. No. 1003

October 11, 1966

To the Members of the  
Accounting Principles Board

Council Report

I am enclosing for your information copies of the reports presented to Council at its October 1 meeting on behalf of the Board, the fiscal committee and the Accounting Research Division.

Very truly yours,

A handwritten signature in dark ink, appearing to read "R. Lytle".

RICHARD C. LYTLE  
Administrative Director  
Accounting Principles Board

RCL JW

Enclosures

Ref. No. 1003

## 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 September. Each of these has been a three-day meeting. We will meet later this month and again in December, and have scheduled five additional meetings between now and the Institute's annual meeting next year. This works out to a meeting of the full Board about every six weeks. Meetings of the full Board are supplemented by many subcommittee meetings and by extensive correspondence and telephone calls between meetings.

This tremendous expenditure of time and effort places a heavy burden upon Board members, who, of course, have other responsibilities. We believe, however, that it is producing results which should be gratifying to you.

### Projects Completed

When I reported to you last spring, the Board had nearly completed work on an Opinion on Accounting for Leases in Financial Statements of Lessors. The Opinion was approved and was issued as Opinion of the Accounting Principles Board No. 7 in May 1966.

A tentative draft of a proposed Opinion on Accounting for the Cost of Pension Plans was approved by the Board for exposure at the June meeting and was distributed to state society committees, industry, governmental representatives and others in July. We have asked that comments be submitted to us by October 1st. The subcommittee on pensions will meet on October 10 to consider them and make recommendations to the full Board. The Board will meet on October 19, 20 and 21, at which time we expect to complete a final draft for ballot and for publication in November.

Two more tentative drafts of Opinions were approved by the Board for exposure at the September meeting. One of these, Reporting the Results of Operations, is a two-part Opinion. The first part is entitled "The Determination of Net Income and the Treatment of Extraordinary Items and Prior Period Adjustments". The second part deals with "The Computation and Reporting of Earnings Per Share".

The other tentative Opinion approved for exposure is entitled Omnibus Opinion - 1966 and was released for comment this week. As its title may suggest, this Opinion deals with a variety of relatively specific, but nonetheless important, matters. It is expected that these Omnibus Opinions will be issued at fairly regular intervals, probably annually, to deal with such matters as:

- (a) Amendments of prior Opinions of the Accounting Principles Board and Accounting Research Bulletins of its predecessor, the Committee on Accounting Procedure, as appear necessary to clarify their meaning or to describe their applicability under changed conditions.
- (b) Affirmation of accounting principles and methods which have become generally accepted through practice and which the Board believes to be sound, and when it desires to prevent the possible development of less desirable alternatives.
- (c) Conclusions as to appropriate accounting principles and methods on subjects not dealt with in previous pronouncements and for which a separate Opinion is not believed to be warranted.

We have asked that comments on Reporting the Results of Operations and on the Omnibus Opinion be submitted to us by November 18. They are to be considered by the Board at its meeting on December 1, 2 and 3. This very tight schedule is necessary to complete them before the end of 1966 and to make them effective for financial statements for the calendar year 1967.

#### Projects in Process

The Board has before it a subcommittee draft of an Opinion on Price-Level Restatements. This is scheduled to receive its first full Board consideration at the October meeting.

As I reported at your last meeting, the Board is preparing an Opinion on Allocation of Corporate Income Taxes in parallel with the exposure of Accounting Research Study No. 9. Good progress is being made and we hope to spend considerable time on the subject at the Board's December meeting.

The subcommittee on public utilities is preparing a draft Opinion on the implications of the rate-making process on accounting by public utilities. This is also scheduled for full Board consideration at its meeting in December.

Two new subcommittees have recently been appointed. One will study the question, noted in Opinion No. 7, as to whether leases accounted for on the "financing" method by lessors should be capitalized by lessees. The other subcommittee has been asked to draft a proposed Opinion defining the meaning and the implications of the term "substantial authoritative support".

#### Fundamentals of Financial Accounting

The Board continues to make good progress in developing a statement of its views on the fundamentals of financial accounting, including the nature and objectives of financial statements. After consideration of preliminary materials submitted by the subcommittee on this subject, the Board decided that the whole subject can probably be handled more effectively in one Opinion instead of three as formerly contemplated. The Accounting Research Division is completing a detailed point outline prepared on this basis. It is scheduled to be one of the principal items on the Board's agenda at the meeting later this month.

#### Reporting for "Conglomerate" Companies

As most of you know, considerable interest has been evoked recently in the question of whether, in addition to presenting the basic financial statements, annual reports to stockholders should

include supplementary information on the revenues and earnings of each segment of a company carrying on a number of distinct lines of business. Chairman Cohen of the Securities and Exchange Commission has discussed this in a number of recent addresses and it has been one of the principal areas of exploration by the anti-trust and monopoly subcommittee of the Senate Judiciary Committee in its study of "Economic Concentration."

The SEC has asked the Institute to study the problem and to give the Commission the benefit of our skill and experience in developing and evaluating financial information to aid it in its consideration of the matter. In view of the already heavy workload of the Board and our desire not to be diverted from completing important projects already underway, particularly those we believe it is important to complete this year, the committee on relations with SEC and stock exchanges was asked to act as a task force on behalf of the Board in investigating the matter and to present to the Board its recommendations as to a course of action.

The committee conducted its investigation with great dispatch, including a number of meetings with representatives of the SEC, the Financial Analysts Federation, the New York Stock Exchange, the Financial Executives Institute and the Investment Bankers Association. The committee submitted its report to me under date of September 2 and it was considered by the Board at the meeting on September 7-9.

The Board is in general agreement with recommendations expressed in the report and authorized me to forward it to the



chairman of the SEC together with a statement of the Board's general conclusions on the matter, as follows:

- (a) The Board has a responsibility for determining the need for disclosure in basic financial statements presenting the over-all results of business activities. It does not believe that the disclosure of additional information breaking these results down by segments of a business is necessary for fair presentation of the financial position and results of operations of the business.
- (b) The Board is not presently in a position to assess the extent to which such additional information is necessary, useful, or desirable for the purposes of financial analysts, governmental agencies or others. Intensive study will be necessary to determine this.
- (c) After such assessment has been made, the Board does deem it to be its function to express an opinion as to the feasibility and methods of presentation of such information.

In testimony on this subject before the antitrust and monopoly subcommittee on September 20, Chairman Cohen referred to the work of the Institute in this area. Although his statements before the subcommittee reflected an understanding of the difficulties in preparing the information in a manner that would be meaningful and not misleading to investors, he expressed some uncertainty as to whether all of the groups interested in the matter appreciate the importance of prompt action in this area. I am sure we shall learn a good deal more of Chairman Cohen's views on this question when he addresses our annual meeting on Wednesday.

The Board believes there is need for intensive study in the whole area of reporting for "conglomerates." Further, the Board feels that we should participate in such a study or carry on a study of our own. Accordingly, I have appointed a subcommittee of the Board for this purpose and the subcommittee has already commenced its work.

We understand that the Financial Executives Institute has commenced research on this subject. Therefore, in the interests of cooperation and of avoiding duplication of effort, our subcommittee will first establish liaison with the FEI. Our subcommittee will then report to the full Board and submit recommendations for further Board action.

#### Looseleaf Edition

I know that many of you will be highly gratified that the decision has been made to publish the formal literature of the Institute, including the Accounting Research Bulletins and the Opinions of the Accounting Principles Board, in looseleaf form in one binder. Work is now in progress in developing a format for the accounting principles section. It is scheduled to be submitted to the APB planning subcommittee by October 10 and, as adopted, is expected to set the pattern for the other sections, including the By-Laws and Code of Professional Ethics, Numbered Opinions of the Committee on Professional Ethics, the Statements on Auditing Procedure, the Statements of Responsibilities in Tax Practice and the Accounting Terminology Bulletins.

Relations with Industry, Government and Educators

The Board continues to encourage the active participation of industry groups, government agencies and teachers in the development of proposed Opinions. The success of these efforts is demonstrated by the fact that over 6,000 copies of exposure drafts of each Opinion are distributed and, more recently, by the large number of requests received from individuals (generally in industry) for copies of proposed Opinions. The readiness of various groups to meet during the vacation period with the committee on relations with SEC and stock exchanges in its investigation on "conglomerates" is further evidence of the recognition accorded the Board's work and of growing interest and cooperation in it.

It should be noted that the volume of work being carried on by the Board also places a heavy burden on industry, government and educators, and on the state CPA societies and chapters, to review exposure drafts and comment upon them. We appreciate the steps that are being taken by a number of organizations to assure our receiving their comments on a timely basis.

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The Board is completing a year of intense activity and, as I believe this report demonstrates, the results are becoming apparent. Our projections indicate that a similarly active and productive year

lies ahead of us. I believe the Board is in good shape and for this I must express my great appreciation to all the members of the Board and to their partners and staffs, and also to the many people outside the Board who have labored so diligently and participated so actively to make this possible.

Respectfully submitted,

CLIFFORD V. HEIMBUCHER  
Chairman  
Accounting Principles Board

October 1, 1966

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, 1966 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 somewhat below budget principally because the accounting research division is understaffed and because the accounting firms which are doing work for the division are making no charge for the very substantial work performed on research projects undertaken by them.

Respectfully submitted,

JOHN W. QUEENAN, Chairman

October 1, 1966

REPORT OF THE ACCOUNTING RESEARCH DIVISION

Once again I take pleasure in reporting to Council changes in the status of accounting research projects since the last Council meeting in May 1966.

Accounting Research Studies Published

Accounting Research Study No. 9, "Interperiod Allocation of Corporate Income Taxes," by Homer A. Black assisted by the accounting research staff, was published on July 1, 1966.

Sales of accounting research studies through August 31, 1966 are:

	<u>Copies</u>
"Basic Postulates of Accounting"	47,901
"'Cash Flow' and the Funds Statement"	51,978
"A Tentative Set of Broad Accounting Principles for Business Enterprises"	41,927
"Reporting of Leases in Financial Statements"	33,301
"A Critical Study of Accounting for Business Combinations"	25,234
"Reporting the Financial Effects of Price-Level Changes"	23,251
"Inventory of Generally Accepted Accounting Principles for Business Enterprises"	45,664
"Accounting for the Cost of Pension Plans"	17,071
"Interperiod Allocation of Corporate Income Taxes"	<u>6,025</u>
Total	<u>292,352</u>

Research Projects in Process

First drafts of two accounting research studies have been distributed to members of project advisory committees:

Accounting for Research and Development Expenditures

by Oscar S. Gellein and Maurice S. Newman. The

project advisory committee considered the first draft of this study at its meeting in June 1966. A draft dated July 1966 was prepared on the basis of committee suggestions and was distributed to a limited number of selected individuals for comment. Comments are due October 1, 1966 and revision of the draft will proceed immediately.

Financial Reporting in the Extractive Industries

by Robert E. Field. Four chapters of the first draft of this study were distributed to the project advisory committee in September 1966.

The fifth, and final, chapter is in process and will be distributed to members of the committee upon completion.

Project advisory committees have in the past considered drafts of two studies and revision of the drafts is currently in process. The two studies are Goodwill and Business Combinations, by George R. Catlett and Norman O. Olson, and Accounting for Intercorporate Investments, by Samuel R. Hepworth and Reed K. Storey.

First drafts of two studies are being prepared for consideration by the members of the project advisory committees. Accounting for Foreign Operations, by Samuel R. Hepworth, is in the final stages of preparation, and we expect distribution to the project advisory committee in the near future. Work on The Concept of Materiality by Kenneth W. Stringer is in preliminary stages with a considerable amount of the research and all of the writing yet to be done.

New Projects of the Accounting  
Research Division

The Planning Subcommittee of the Accounting Principles Board authorized four new projects at its meeting on August 18, 1966. A study of Corporate Stockholders' Equity by Beatrice Melcher is well under way because it is an extension of a staff research memorandum on accounting for treasury stock. Letters of invitation to members of a project advisory committee have been sent. Other studies authorized deal with Working Capital, Inventory Pricing, and Depreciation Methods. The Division expects to begin work on these three studies in the near future.

The Planning Subcommittee also agreed that studies on Other Accounting Authorities and Historical Summaries were of lower priority and that work on them should be deferred for the time being.

APB Assignments to the Accounting  
Research Division

The Accounting Research Division continues to provide staff assistance to two Board subcommittees in preparation of proposed Board Opinions: (1) the Subcommittee on Nature and Objectives of Financial Statements 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 five research and three clerical and administrative personnel. One university professor of accounting and six partners in accounting firms are engaged as authors of accounting research studies in process. In addition, President Robert



M. Trueblood has made arrangements for accounting firms to supplement the accounting research staff on a temporary basis as the need arises. Two accountants are presently nearing completion of their assignment under this arrangement. One accountant is scheduled to begin on October 1, 1966, one on January 2, 1967, and one on April 1, 1967. We are grateful to Mr. Trueblood for his continued interest and effort in making these arrangements possible and to the accounting firms who have worked on our projects.

Cecilia V. Tierney, project manager in the Division, has taken a one-year leave of absence beginning September 1, 1966 to lecture at the University of Washington, Seattle, and to complete her dissertation for the Ph.d. degree at the University of Texas. Loyd C. Heath, associate professor of accounting at the University of Washington, has joined the accounting research staff for one year. We continue to search for additions to the permanent research staff.

Respectfully submitted,

Reed K. Storey, Director  
Accounting Research

October 1966