Financial Accounting Standards Board

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DONALD J. KIRK, Chairman of the Board

June 7, 1985

The Honorable John D. Dingell
Chairman
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
U.S. House of Representatives
Room 2125
Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Dingell:

Recently, staff of the Subcommittee on Oversight and Investigations requested certain information about Statements of Financial Accounting Standards issued by the Financial Accounting Standards Board that either had not been submitted in response to your letter of February 11 or was submitted in a form different from what was specified. Our written submission to the subcommittee was completed before we received that letter because we understood that the deadline for written material was February 14. We are pleased to provide the requested information as attachments to this letter.

With respect to your request for a layman's language summary of FASB standards, we previously submitted a general description of our pronouncements, grouped by general subject areas. In response to the subcommittee staff's recent request, we now have prepared a one-page summary of each of the 85 Statements of Financial Accounting Standards issued to date. We have tried to keep the summaries as simple as possible, which is not easily done for those Statements that address very complex issues. Members of our staff met with subcommittee staff on May 3, 1985 to ensure that the format of the information being provided would meet your needs. Rather than repeat certain common information on every summary, we also have provided a summary of common themes underlying all Statements of Financial Accounting Standards, which should be read in conjunction with the summaries of individual Statements.

With respect to your request that we identify problem areas where new or improved accounting standards are needed, our written submission to the subcommittee dated February 20, 1985 included (in Appendix B) a copy of our January 1, 1985 Plan for Technical Projects, Research, and other Technical Activities. Accompanying this letter we are submitting an updated copy of that Technical Plan and other materials identifying areas where new or improved accounting standards may be needed.

If the FASB can be of further assistance to you in these or other matters, we will be pleased to do so.

Very truly yours,

Donald J. Kirk

Donald J. Kirk
DJK/1791W

Enclosures

FINANCIAL ACCOUNTING STANDARDS BOARD

SUMMARY OF STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

Nos. 1 to 85

submitted to the
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
COMMITTEE ON ENERGY AND COMMERCE
U.S. HOUSE OF REPRESENTATIVES

June 7, 1985

[The attached individual summaries of FASB Statements Nos. 1-85 should be read in conjunction with the attached Summary of Common Themes Underlying the Adoption of FASB Standards.]

SUMMARY OF COMMON THEMES UNDERLYING THE ADOPTION OF FASB STANDARDS

REASONS FOR ADOPTION:

Most FASB Statements of Financial Accounting Standards are adopted to specify the approach to accounting for a particular business activity or type of transaction. However, sometimes standards are adopted to extract preexisting guidance from a source other than an FASB pronouncement or to update a previously issued pronouncement to reflect factors not present at the time it originally was issued.

REMAINING ALTERNATIVES, IF ANY:

It is unusual for any pronouncement to specify that a variety of practices should continue to be acceptable alternatives--most standards are issued for the purpose of specifying one acceptable method of accounting for a given set of circumstances. Therefore, most of the summaries indicate that no alternatives remain relating to the area addressed by the standard.. However, on occasion the Board will limit the scope of a project to specific issues if timely resolution of those issues is needed, and may not address in that pronouncement a related accounting alternative of which the Board is aware if that approach will expedite resolution of more pressing issues.

CRITICISMS OF THE STANDARD:

Many new FASB Statements are criticized by some of our constituents as contributing to "accounting standards overload." Some believe that the FASB should issue only broad, general standards, leaving the resolution of specific accounting questions to the judgment of preparers of financial statements and their auditors; they view virtually any new rule as an undesirable infringment on their ability to apply judgment in selecting the most appropriate accounting in the circumstances.

During the due process leading to the issuance of a final pronouncement, various alternative solutions usually are suggested by interested parties and the standard, when issued, often is criticized initially by those who offered solutions that were not adopted. If a member of the FASB disagrees with a standard, he may dissent to its issuance, and the reasons for his dissent are set forth. This expression of differing views is an inherent part of the Board's open process leading to the issuance of FASB pronouncements. For a few pronouncements, the initial criticisms continue to be voiced for some time after the Statement is issued. For the vast majority of Statements, however, debate generally ends shortly after issuance. Though some may disagree with the conclusions in a Statement, compliance is required nonetheless. Additionally, after a Statement has been effective for a period of time, many of those who disagreed may prefer to retain its provisions rather than open the subject for Board reconsideration.

The attached summaries reflect the criticisms of the Statements that were voiced during the deliberations leading to their issuance, including those criticisms voiced by members of the FASB who dissented. In most cases, those criticisms generally are not being echoed by users, preparers, or auditors of financial statements.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN:

Accounting or implementation problems may arise as companies apply new accounting standards for the first time. Therefore, the Board monitors the implementation of its standards, and the FASB issues clarifying or amending guidance when needed.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 1

TITLE: Disclosure of Foreign Currency Translation Information

KEY DATES:	Added to Board agenda	April 1973
	Exposure for public comment	October 1973
	Final Statement issued	December 1973

ISSUE(S) ADDRESSED: Many companies have operations in foreign countries that conduct their business in a currency other than the U.S. dollar. Also, many U.S. companies engage in transactions denominated in foreign currencies, such as export sales or import purchases. Both foreign operations and foreign currency transactions raise issues concerning exchange rates to be used to translate assets, liabilities, and income statement items and when to recognize in income the gains and losses that result when exchange rates change.

SUMMARY OF STANDARD: The standard required companies to disclose (a) information about which accounts were translated at current rates and which at historical rates and (b) their method of accounting for exchange adjustments, i.e., whether those gains and losses were recognized in income in the period in which exchange rates changed or whether they were deferred for later recognition. Disclosures about total amounts of gains and losses either recognized currently or deferred also were required.

REASONS FOR ADOPTION: The accounting methods being used in 1973 permitted extensive flexibility in accounting for foreign operations and foreign currency transactions, and many companies did not fully disclose what methods they used. Many companies followed an Exposure Draft (a proposed standard) issued by the Accounting Principles Board, which had SEC approval even though a final standard was never issued. Since the time the Exposure Draft was issued, the international operations of U.S. companies had expanded greatly, and the world monetary system had changed from fixed exchange rates to floating rates for most important currencies. Foreign currency translation was therefore included on the FASB's first agenda. Because it was a major and complex project, the FASB recognized that it could not be completed for at least 2 years. Statement 1 was issued to provide financial statement users with better disclosures while the FASB completed the major project.

HOW THE STANDARD IMPROVED PREVIOUS PRACTICE: The standard was a temporary disclosure measure designed to provide users with information that would allow them to evaluate the effects of differing accounting practices on the financial statements of multinational companies while the FASB undertook a comprehensive consideration of foreign currency translation.

REMAINING ALTERNATIVES, IF ANY: All existing accounting alternatives were unaffected by Statement 1 (See summary of Statement 8).

CRITICISMS OF THE STANDARD: None.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None. The Statement was superseded by Statement 8 and Statement 52.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 2

TITLE: Accounting for Research and Development Costs

KEY DATES:		
	Added to Board agenda	April 1973
	Discussion Memorandum issued	December 1973
	Public Hearing held	March 1974
	Exposure for public comment	June 1974
	Final Statement issued	October 1974

ISSUE(S) ADDRESSED: Many companies attempt to discover new knowledge in the hope of developing a new or improved product that will be offered for sale. The costs incurred to discover new knowledge and to translate that knowledge into the design for a new or improved product are referred to as "research and development" or "R&D."

SUMMARY OF STANDARD: The standard requires that R&D costs be charged to expense when incurred. It also requires a company to disclose in its financial statements the amount of R&D that it charges to expense.

REASONS FOR ADOPTION: In the early 1970s, R&D expenditures were rapidly becoming a very significant element of the U.S. economy, and the amounts that companies were spending for R&D were increasing. Some companies were accounting for R&D costs as assets and were writing them off over a period of several years. Other companies were accounting for R&D costs as expenses and were therefore deducting them from the current year's income. It was difficult to compare companies' financial statements. In addition, companies that recorded R&D costs as assets had to write off the project's costs in one lump sum if and when the project proved unsuccessful.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard enhances comparability by defining R&D costs and by providing a single method of accounting for them.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: The standard treats all R&D costs in the same manner for accounting purposes, even though some costs result in products with probable future economic benefit (although most R&D costs result in unsuccessful projects).

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: Some companies capitalize some costs of producing computer software that is to be sold because they believe the activities are not R&D as defined in this Statement. Others believe that the costs are R&D and should therefore be expensed as incurred. The Board currently has a project on its agenda to address this issue.

STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS NO. 3

TITLE: Reporting Accounting Changes in Interim Financial Statements

KEY DATES:		
	Added to Board agenda	November 1974
	Exposure for public comment	November 1974
	Final Statement issued	December 1974

ISSUE(S) ADDRESSED: This Statement provides guidance regarding interim financial reporting (quarterly reporting) of certain types of changes in accounting methods.

SUMMARY OF STANDARD: The standard specifies that certain changes in accounting principles--termed "cumulative effect type" accounting changes--made in other than the first interim period of the year will result in the restatement of financial information for the earlier interim periods of that year. It also requires certain financial statement disclosures for situations in which a company changes to the Last-In, First-Out (LIFO) method of inventory pricing but is unable to determine the cumulative effect of that change.

REASONS FOR ADOPTION: The standard was issued in response to numerous inquiries concerning the appropriate procedures for reporting a change to the LIFO method of inventory pricing and other cumulative effect type accounting changes in interim period financial statements.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates alternatives and enhances comparability.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: It has been criticized for promoting restatement of interim period financial information, which might be confusing to some financial statement users.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None. However, the provisions of this Statement may be reconsidered in connection with current staff work on Statement 16.

STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS NO. 4

TITLE: Reporting Gains and Losses from Extinguishment of Debt

KEY DATES:		
	Added to Board agenda	January 1975
	Exposure for public comment	January 1975
	Final Statement issued	March 1975

ISSUE(S) ADDRESSED: Companies can extinguish (pay off) debt issues before their scheduled maturity date, at maturity, and after the scheduled maturity date. The key accounting issue is whether to classify gains and losses on such extinguishments as ordinary or extraordinary items for income statement presentation.

SUMMARY OF STANDARD: The standard specifies that gains and losses in the current year from extinguishments of debt, other than to meet sinking fund requirements, shall be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. The standard also provides that a description of the extinguishment transaction, the income tax effect, and the per share amount of the aggregate gain or loss net of the tax effect be disclosed in the financial statements.

REASONS FOR ADOPTION: Prior to the issuance of this Statement, APB Opinion 30 precluded classifying most gains and losses from early extinguishments of debt as extraordinary items. Further, no authoritative accounting pronouncements existing prior to this Statement addressed accounting for extinguishments of debt at maturity date or later. The SEC and other entities had expressed concern to the FASB that gains and losses from debt extinguishments were being included in the calculation of income before extraordinary items in the income statement.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates the classification of gains and losses on extinguishments of debt as income from continuing operations. Also, additional disclosures of the effect of such debt extinguishments on profitability are provided.

REMAINING ALTERNATIVES, IF ANY: The appropriate application of the above criteria should result in similar transactions being treated similarly, and thus alternative treatments for the same underlying circumstances do not exist.

CRITICISMS OF THE STANDARD: Some argue that extinguishments of debt are neither unusual nor infrequent and thus do not meet the definition of extraordinary items under Opinion 30.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS NO. 5

TITLE: Accounting for Contingencies

KEY DATES:		
	Added to Board agenda	April 1973
	Discussion Memorandum issued	March 1974
	Public Hearing held	May 1974
	Exposure for public comment	October 1974
	Final Statement issued	March 1975

ISSUE(S) ADDRESSED: Sometimes a company must account for a contingency. A contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to a company that will ultimately be resolved when one or more future events occur or fail to occur.

SUMMARY OF STANDARD: The standard requires accrual by a charge to income (and disclosure) for an estimated loss from a loss contingency if two conditions are met: (a) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements, and (b) the amount of loss can be reasonably estimated. Accruals for general or unspecified business risks ("reserves for general contingencies") are no longer permitted. Accounting for gain contingencies under ARB 50 remains unchanged; they are recognized when realized.

REASONS FOR ADOPTION: The Board added the project to its agenda because some companies were accruing certain future losses while other companies were charging those losses to expense in the year of occurrence. In January 1973, the SEC issued Accounting Series Release (ASR) 134, which publicized several property and casualty insurance companies' accounting policy of accruing for expected losses from future catastrophes. In August 1973 the SEC announced in ASR 145 that property and casualty insurance companies should not change their method of accounting for catastrophe losses pending FASB action.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates alternatives and enhances comparability. Previously, some companies accrued estimated losses from some types of contingencies by a charge to income prior to occurrence of the event(s) expected to resolve the uncertainties, while under similar circumstances other companies accounted for those losses only when the confirming event(s) had occurred.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE ST-NDARD: Some said the standard should be narrower in focus and deal only with three specific matters: "self-insurance," risks of losses from catastrophes, and threat of expropriation. Decision usefulness, the matching concept, comparability, and conservatism were cited as reasons for permitting loss accruals in an accounting period even if not directly related to events or activities of the period.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 6

TITLE: Classification of Short-Term Obligations Expected to Be Refinanced

KEY DATES:		
	Added to Board agenda	November 1974
	Exposure for public comment	November 1974
	Final Statement issued	May 1975

ISSUE(S) ADDRESSED: The balance sheets of most companies show separate classifications of current assets and current (short-term) liabilities (commonly referred to as classified balance sheets) permitting ready determination of working capital (the difference between current assets and current liabilities). However, some current obligations, such as commercial paper, are expected to be refinanced on a long-term basis and, therefore, are not expected to require the use of working capital during the ensuing fiscal year. This Statement establishes criteria for balance sheet classification of such short-term obligations.

SUMMARY OF STANDARD: The standard specifies that short-term obligations arising from transactions in the normal course of business that are due in customary terms shall be classified as current liabilities. Other short-term obligations shall be excluded from current liabilities only if the company has the intent and demonstrated ability to refinance the obligation on a long-term basis.

REASONS FOR ADOPTION: Short-term obligations expected to be refinanced on a long-term basis had been presented in balance sheets in a number of ways, including (a) classification as current liabilities, (b) classification as long-term liabilities, and (c) presentation as a class of liabilities distinct from both current liabilities and long-term liabilities.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates alternatives and enhances comparability.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some believed that information concerning management's ability and intent to refinance certain of its obligations could best be communicated in financial statements by footnote disclosures. They supported more restrictive criteria for balance sheet classification than those mandated by the standard.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 7

TITLE: Accounting and Reporting by Development Stage Enterprises

KEY DATES:		
	Added to Board agenda	April 1973
	Discussion Memorandum issued	December 1973
	Public Hearing held	March 1974
	Exposure for public comment	July 1974
	Final Statement issued	June 1975

ISSUE(S) ADDRESSED: This Statement addresses how development stage companies should do their accounting and financial reporting. A "development stage enterprise" is a company that is establishing a new business and either has not begun its planned principal operations or has not generated revenue from its planned principal operations.

SUMMARY OF STANDARD: The Statement requires development stage companies to do their accounting and to prepare their financial statements using the same accounting principles as established operating companies.

REASONS FOR ADOPTION: Some development stage companies used special accounting and financial reporting practices. These included deferring and amortizing costs as assets when, under similar circumstances, an established company would have recorded those costs as an expense when incurred. Some development stage companies also prepared financial statements that were in different formats than those prepared by established operating companies.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard enhances comparability by requiring development stage companies to follow the same accounting and financial reporting guidelines as established operating companies.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: None.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 8

TITLE: Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements

KEY DATES:		
	Added to Board agenda	April 1973
	Discussion Memorandum issued	February 1974
	Public Hearing held	June 1974
	Exposure for public comment	December 1974
	Final Statement issued	October 1975

ISSUE(S) ADDRESSED: Many companies have operations in foreign countries that conduct their business in currencies other than the U.S. dollar. Also, many U.S. companies engage in transactions denominated in foreign currencies, such as export sales or import purchases. Both foreign operations and foreign currency transactions raise issues concerning the exchange rates (current or historical) to be used to translate assets, liabilities, and income statement items and when to recognize in income the gains and losses that result when exchange rates change.

SUMMARY OF STANDARD: The standard required that all amounts measured in a foreign currency be translated at the exchange rate in effect at the date at which the foreign currency transaction was measured. For example, an asset acquired for Canadian dollars on 12-31-70 and carried in the financial statements at its cost was translated at the exchange rate in effect on 12-31-70; an asset carried at its market value on 12-31-75 was translated at the rate on 12-31-75. The objective was to measure all amounts as though the transaction had been in U.S. dollars. All exchange gains and losses were required to be included in income in the period in which they arose, i.e., when the rates changed.

REASONS FOR ADOPTION: Before Statement 8, several methods were used to account for foreign operations and foreign currency transactions. The international operations of U.S. companies had expanded greatly, and the world monetary system had changed from fixed exchange rates to floating rates for most important currencies, with the result that the accounting method chosen by a company could significantly affect its financial statements. Foreign currency translation was therefore included on the FASB's agenda when the FASB was established in 1973.

HOW THE STANDARD IMPROVED PREVIOUS PRACTICE: The standard eliminated alternatives and provided guidance on several complex issues.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Foreign currency translation continued to be controversial as large fluctuations in exchange rates significantly affected reported earnings of many companies. Some believed that the resulting volatility of reported earnings often did not reflect underlying economic reality. The FASB eventually decided to reconsider Statement 8 (see summary of Statement 52).

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None. The Statement was superseded by Statement 52.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 9

TITLE: Accounting for Income Taxes--Oil and Gas Producing Companies

KEY DATES:		
	Added to Board agenda	April 1975
	Exposure for public comment	April 1975
	Public Hearing	September 1975
	Final Statement issued	October 1975

ISSUE(S) ADDRESSED: This Statement addresses allocation of income taxes related to intangible drilling and development costs (IDC) that are deductible in determination of taxable income, but are capitalized and amortized in the determination of pretax accounting income.

SUMMARY OF STANDARD: The standard requires companies to allocate the tax effect of IDC that enters into the determination of taxable income and pretax accounting income in different periods. The standard also provides guidance for companies that elect to include excess statutory depletion in a computation of interperiod tax allocation.

REASONS FOR ADOPTION: APB Opinion 11 exempted IDC from the tax allocation required of other tax/accounting timing differences because some question existed as to how the interaction between IDC and the allowance of statutory depletion should be computed. While most agreed that the timing difference for IDC would in fact reverse, many pointed out that the allowance granted for statutory depletion could be expected in many cases to negate any tax effect of the reversal. After the Tax Reform Act of 1975 substantially reduced or eliminated the percentage depletion deduction for many oil- and gas-producing companies, the Board concluded that the exemption of IDC from the provisions of Opinion 11 was no longer appropriate.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates the alternative treatment of the tax affects of IDC, enhances comparability, and provides guidance in the computation of amounts of income tax to be allocated among periods.

REMAINING ALTERNATIVES, IF ANY: None now, but at initial application of the standard, companies were allowed a choice in measuring the interaction between excess statutory depletion and the reversal of tax accounting timing differences created by IDC.

CRITICISMS OF THE STANDARD: The standard was criticized for allowing a choice between two significantly different methods of implementation and for allowing the offset of a reversing timing difference (IDC) and a permanent timing difference (excess statutory depletion).

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 10

TITLE: Extension of "Grandfather" Provisions for Business Combinations

KEY DATES:	Added to Board agenda	November 1973
	Exposure for public comment	September 1975
	Final Statement issued	October 1975

ISSUE(S) ADDRESSED: Companies enter into business combinations effected as poolings of interests. The key accounting issue centers around the criteria in APB Opinion 16 that must be met by combining companies in order to account for a business combination as a pooling of interests. APB 16 provided a five year "grandfather" exemption from certain of the criteria for intercorporate investments existing at the effective date of APB 16.

SUMMARY OF STANDARD: The standard eliminates the five-year limitation in the grandfather provisions of Opinion 16 and in AICPA Accounting Interpretations 15, 16, 17, and 26 of Opinion 16 that allow an exemption from certain criteria for applying pooling of interests accounting to business combinations.

REASONS FOR ADOPTION: When this Statement was issued, the FASB had a project on its agenda entitled, "Accounting for Business Combinations and Purchased Intangibles," that involved a reconsideration of APB 16. The Board believed that due to that project, the grandfather provisions of Opinion 16 and the related AICPA Accounting Interpretations should continue in effect pending completion of that project.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: Upon expiration of the five-year grandfather provisions, practice for accounting for business combinations would change. Subsequent completion of the FASB's project on "Accounting for Business Combinations and Purchased Intangibles" could once again alter accounting practice. This Statement eliminates the possibility that accounting practice in this area would change twice in a short period of time and thus eliminates the reduced comparability of financial information and confusion that could result.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: None.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None with respect to this issue, although the staff has work in progress on several other business combination issues.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 11

TITLE: Accounting for Contingencies--Transition Method

KEY DATES:		
	Added to Board agenda	October 1975
	Exposure for public comment	October 1975
	Final Statement issued	December 1975

ISSUE(S) ADDRESSED: Paragraph 20 of Statement 5, "Accounting for Contingencies," dealing with that Statement's effective date and transition, required that the cumulative effect of a change in accounting principle resulting from initial application of Statement 5 be reported as an adjustment of retained earnings at the beginning of the year in which the change was made.

SUMMARY OF STANDARD: The standard changed paragraph 20 of Statement 5 to require that a company restate its financial statements for as many preceding periods as was practicable to conform to the provisions of Statement 5. The effect on income of applying Statement 5 in a period in which a cumulative effect was included in determining net income was required is to be disclosed for that period, and the reason for not restating all prior periods presented had to be explained.

REASONS FOR ADOPTION: In issuing Statement 8 (Foreign Currency Translation) in October 1975, the Board concluded that prior period restatement was the preferable method to provide useful information about foreign currency transactions and foreign operations for comparing financial data for a number of periods. In reconsidering the differences in the transition methods required by Statements 5 and 8 and the factors that led the Board to reach different conclusions on transition in those two Statements, the Board concluded that the cumulative effect method required by Statement 5 should not be permitted in those cases in which restatement of prior years' financial statements was possible.

HOW THE STANDARD IMPROVED PREVIOUS PRACTICE: The standard enhanced consistency of treatment as to how certain changes in accounting standards were reflected in financial statements.

REMAINING ALTERNATIVES, IF ANY: None now, but companies that elected early application of Statement 5 (prior to its effective date) and that issued financial statements or other financial data using the cumulative effect method of transition were strongly encouraged, but were not required, to restate their financial statements.

CRITICISMS OF THE STANDARD: See remaining alternatives.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 12

TITLE: Accounting for Certain Marketable Securities

KEY DATES:		
	Added to Board agenda	September 1975
	Exposure for public comment	November 1975
	Final Statement issued	December 1975

ISSUE(S) ADDRESSED: (a) When should marketable equity securities (common and preferred stock) be written down below cost; (b) should marketable equities that have been written down be written back up if market prices increase; (c) how should subsidiaries that use different methods of accounting for marketable securities (market or lower of cost or market) be consolidated?

SUMMARY OF STANDARD: The Statement requires most businesses to carry marketable equities at lower of portfolio cost or market value. A company has two portfolio classifications for this purpose, current and noncurrent. For the noncurrent asset portfolio, writedowns for market-value declines (and writeups for recoveries) not yet realized by sale are made to a separate component of equity and not to net income. For a current portfolio, writedowns and recoveries are included in net income. Realized gains and losses on both current and noncurrent portfolios are included in net income. Mutual funds, broker-dealers, insurance companies, and banks retain their special accounting methods, with some improvements. Results of different methods used by subsidiaries in those industries are retained in consolidation.

REASONS FOR ADOPTION: The AICPA and others urged the Board to take quick action in light of the substantial effects on many companies of the major stock market declines in 1973-74 and the partial recovery in 1975.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: Previous practice included several alternatives: some carried marketable equity securities at cost, some at market or variations of market, some at lower of portfolio cost or market, and some at lower of individual security cost or market. Many recorded only market declines judged to be "other than temporary." In periods of major market price movement, identical portfolios could produce a variety of net income figures. Under Statement 12 no company has a choice of methods, although some industries use different methods.

REMAINING ALTERNATIVES, IF ANY: The designation of certain securities as current or noncurrent requires judgment that can affect subsequent accounting.

CRITICISMS OF THE STANDARD: Some believe all marketable securities should be accounted for in the same way. Some recommend market value, with unrealized and realized gains and losses in net income, saying that for a readily marketable security, realization is not the critical event. Some believe Statement 12 makes accounting for marketable securities needlessly complex. Some also criticize Statement 12 because they believe it inappropriately creates direct entries to shareholders' equity.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 13

TITLE: Accounting for Leases

KEY DATES:

Added to Board agenda	April 1973
Discussion Memorandum issued	July 1974
Public Hearing held	November 1974
First exposure for public comment	August 1975
Second exposure for public comment	July 1976
Final Statement issued	November 1976

ISSUE(S) ADDRESSED: This Statement addresses the accounting for leases by lessees and lessors. The key accounting issue is the determination of whether a lease is in substance a financing transaction (essentially an asset purchase) or a rental agreement (an operating lease).

SUMMARY OF STANDARD: The Statement establishes standards of financial accounting and reporting for leases by lessees and lessors. For lessees, a lease is a financing transaction called a capital lease if it meets any one of four specific criteria; if not, it is an operating lease. Capital leases are treated as the acquisition of assets and the incurrence of obligations by the lessee. Operating leases are treated as current operating expenses. For lessors, a financing transaction lease is classified as a sales-type, direct financing, or leveraged lease. To be a sales-type, direct financing, or leveraged lease, the lease must meet one of the same criteria used for lessees to classify a lease as a capital lease, in addition to two criteria dealing with future uncertainties. Leveraged leases also have to meet further criteria. These types of leases are recorded as investments under different specifications for each type of lease. Leases not meeting the criteria are considered operating leases and are accounted for like rental property.

REASONS FOR ADOPTION: Previous pronouncements provided only general guidance on accounting for leases or dealt only with disclosure requirements. Inconsistencies remained in accounting practices, as well as differences of opinion as to how to resolve the issue.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: Statement 13 improves the quality of disclosure, enhances comparability by eliminating alternatives, and provides guidance in accounting for the substance of a lease transaction, not the form.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Statement 13 has been criticized because it is too complex to apply and is especially difficult for small businesses to implement. Some have stated that the criteria included in the standard are arbitrary, eliminate judgment, and allow the accounting to influence the terms of a transaction. Some also have criticized Statement 13 for not achieving its objective that all substantive purchases and obligations be recognized as assets and liabilities.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: Small businesses are still opposed to Statement 13, considering it to be the most important "standards overload" issue. Furthermore, FASB research indicates that many lessee companies structure new leases and renegotiate old leases specifically to avoid or reduce capitalization. The FASB has considered readdressing lease accounting but to date has concluded that any solution that tries to solve the latter problem may compound the former problem.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 14

TITLE: Financial Reporting for Segments of a Business Enterprise

KEY DATES:		
	Added to Board agenda	April 1973
	Discussion Memorandum issued	May 1974
	Public Hearing held	August 1974
	Exposure for public comment	September 1975
	Final Statement issued	December 1976

ISSUE(S) ADDRESSED: The standard addresses disclosure of information relating to a company's industry segments, foreign operations, export sales, and major customers.

SUMMARY OF STANDARD: This Statement requires a publicly held business company to present, for each segment of its operations qualifying as a reportable segment, information on revenues, profitability, identifiable assets, and other related disclosures (such as the aggregate amount of a segment's depreciation, depletion, and amortization expense). Similar information is required to be reported on a geographic basis for those companyies having foreign operations and export sales. If 10 percent or more of the revenue of a company is derived from sales to any single customer, that fact and the amount of revenue from each customer must also be disclosed. Finally, the standard requires that a company operating predominantly or exclusively in a single industry identify that industry.

REASONS FOR ADOPTION: The conglomerate movement and broadening of the activities of many companies into different industries, foreign countries, and markets complicated the analysis of conditions, trends, and ratios and the ability to predict cash flows for financial statement users.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard enhances analysis and understanding of the financial statements by providing information on a company's operations in different industries, its foreign operations and export sales, and its major customers.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some have criticized this standard for requiring information that is not useful to investors and creditors because it is too analytical or interpretive and is not susceptible to the same degree of verifiability as consolidated information. Others have criticized this standard for not requiring greater detail and for not requiring presentation of the information in quarterly reports.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 15

TITLE: Accounting by Debtors and Creditors for Troubled Debt Restructurings

KEY DATES:

Debtor accounting project added to Board agenda	September 1975
Exposure for public comment	November 1975
Held public hearing	December 1975
Broadened project to include creditor accounting	January 1976
Discussion Memorandum issued	May 1976
Held public hearing	July 1976
Exposure for public comment	December 1976
Final Statement issued	June 1977

ISSUE(S) ADDRESSED: Sometimes when a debtor is in financial difficulty, a creditor may make some concessions to the debtor and restructure terms of the debt (such as interest rate reductions, payment deferrals, or reductions of principal) to avoid bankruptcy proceedings and other consequences of default. The Statement addresses the accounting by both parties, though initially the FASB project only addressed accounting by the debtor.

SUMMARY OF STANDARD: The standard requires adjustments in payment terms from a troubled debt restructuring generally to be considered adjustments of the yield (effective interest rate) of the loan. So long as the aggregate payments (both principal and interest) to be received by the creditor are not less than the creditor's carrying amount of the loan, the creditor recognizes no loss, only a lower yield over the term of the restructured debt. Similarly, the debtor recognizes no gain unless the aggregate future payments (including amounts contingently payable) are less than the debtor's recorded liability.

REASONS FOR ADOPTION: Authoritative literature in 1975 addressed early extinguishments (retirements) of debt by debtors but not troubled debt restructurings or accounting by creditors. Diversity in practice existed, including the treatment of amounts contingently payable.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates alternatives and enhances comparability.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: The restructuring acknowledges a loss in economic terms (such as agreeing to earn a lower interest rate over an extended term), but the accounting recognizes the effect of the restructuring over future years. Some disagree with that result and advocate that a loss (that is, the reduction in the present value of payments to be received) be recognized when the debt is restructured and that a market yield be recognized on the debt thereafter.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 16

TITLE: Prior Period Adjustments

KEY DATES:		
	Added to Board agenda	July 1976
	Exposure for public comment	July 1976
	Public Hearing held	October 1976
	Final Statement issued	June 1977

ISSUE(S) ADDRESSED: The Statement specifies when it is appropriate for a company to make accounting adjustments to previously issued annual or interim period (quarterly) financial statements.

SUMMARY OF STANDARD: The standard limits adjustments of previously issued annual financial statements to correction of a material error and recognition of certain income tax benefits relating to preacquisition loss carryforwards of a purchased subsidiary. It restricts adjustments of prior interim period (quarterly) financial statements of the current fiscal year to the settlement of certain transactions that are material in amount, that can be specifically identified with business activities of a prior interim period, and that could not be estimated prior to the current interim period. The method of allocating interim period adjustments is also described in the standard.

REASONS FOR ADOPTION: It was issued in response to SEC Staff Accounting Bulletin 8, which questioned the applicability of certain provisions of APB Opinion 9 regarding prior period adjustments. Those provisions were superseded by this standard.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates alternatives, restricts prior period adjustments to a few isolated situations, and enhances comparability.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: The standard has been criticized for being too restrictive regarding adjustment of prior periods. The criteria provided for interim period financial statements has been criticized as being inconsistent with the criteria regarding annual financial statements.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: The FASB staff is currently reviewing the guidance regarding restatement of interim period financial statements due to comments it received relating to its guidance on the accounting for the effects of the Tax Reform Act of 1984. Certain provisions of this Statement are being considered in that review.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 17

TITLE: Accounting for Leases--Initial Direct Costs

KEY DATES:		
	Added to Board agenda	June 1977
	Exposure for public comment	August 1977
	Final Statement issued	November 1977

ISSUE(S) ADDRESSED: This Statement modifies the definition of "initial direct costs" found in paragraph 5(m) of Statement 13, "Accounting for Leases." Generally, for lessors, initial direct costs are charged against income when incurred for direct financing leases, charged against income when the sale is recorded for sales-type leases, and deferred and allocated over the lease term for operating leases. (For general lease accounting, see the summary for Statement 13.)

SUMMARY OF STANDARD: This Statement changed the definition of initial direct costs to be costs incurred by the lessor directly associated with negotiating and consummating a completed lease transaction. Examples of these costs include commissions,legal fees, and processing costs.

REASONS FOR ADOPTION: After the issuance of Statement 13, the Board received a number of requests to interpret the definition of initial direct costs, specifically to clarify the meaning of "incremental direct costs."

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard clarifies the application of Statement 13 for leasing companies.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some stated that a few of the costs included in initial direct costs would be difficult to ascertain. Others said that direct and indirect acquisition costs should be charged to income as incurred.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 18

TITLE: Financial Reporting for Segments of a Business Enterprise--Interim Financial Statements

KEY DATES:	Added to Board agenda	April 1977
	Exposure for public comment	September 1977
	Final Statement issued	November 1977

ISSUE(S) ADDRESSED: This Statement addresses whether segment information as required by Statement 14 should be included in interim (quarterly) financial statements.

SUMMARY OF STANDARD: The standard eliminates the requirement of Statement 14 to report segment information in financial statements for interim periods. However, if a company chooses to present interim period segment information, its financial statements must comply with Statement 14.

REASONS FOR ADOPTION: Statement 18 was issued because of difficulties in interpreting the provisions of Statement 14 that specify the limited circumstances in which segment information was required in interim financial statements.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates the confusion about the limited circumstances in which a company issuing interim period financial statements should present segment information.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some believe that segment information should be included in interim reports. They contend that segment information is needed on a more timely basis than annually and that the difficulties in deciding whether to prepare it on an interim basis can be overcome.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 19

TITLE: Financial Accounting and Reporting by Oil and Gas Producing Companies

KEY DATES:	Added to Board agenda	October 1975
	Discussion Memorandum issued	December 1976
	Public Hearing held	March and April 1977
	Exposure for public comment	July 1977
	Final Statement issued	December 1977

ISSUE(S) ADDRESSED: This Statement addresses accounting for the cost incurred to acquire mineral interests and to develop and produce crude oil and natural gas. One method, "successful efforts," charges the cost of unsuccessful exploration efforts against income in the year in which the effort is deemed to be unsuccessful. The second method, "full cost," treats all of the costs incurred as the cost of the oil and natural gas discovered (unsuccessful efforts are not immediately written off). Variations of those methods are also used in practice.

SUMMARY OF STANDARD: The standard specifies that companies should follow the successful efforts method of accounting for the costs of acquiring, exploring, and developing mineral resources. The standard also specifies the means by which capitalized cost should be amortized and addresses the accounting for mineral property conveyances, the disclosure to be included in the financial statements, and the accounting for income taxes.

REASONS FOR ADOPTION: Two alternative basic methods of accounting had evolved in practice. The need to eliminate one alternative and to adopt a method of accounting became urgent in December 1975, when Congress enacted the Energy Policy and Conservation Act. Title 5 of the Act directed the SEC either to prescribe rules or to rely upon accounting practices developed by the FASB to be followed by persons engaged in the production of crude oil and natural gas. The principal objective of Section 503 was to make possible the compilation of a National Energy Data Base of information related to the domestic and foreign operation of U.S. oil- and gas-producing companies.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard provides consistent principles for the (a) classification of cost incurred to develop and produce oil and gas resources, (b) accounting for mineral property conveyances, (c) computation of amortization, (d) disposition of capitalized costs, and (e) interperiod tax allocation related to tax accounting timing differences.

REMAINING ALTERNATIVES, IF ANY: In ASRs 257 and 258, the SEC stated that public oil companies would continue to be permitted to use the full cost method of accounting. This effectively overruled the Board's decision to adopt a single method of accounting (successful efforts) for all oil companies. To avoid forcing private companies to make a change in accounting that public companies were not required to make, Statement 25 suspended the requirement that all companies adopt successful efforts accounting.

CRITICISMS OF THE STANDARD: Commentators criticized the standard as unfairly limiting the accounting alternatives of oil producing companies. Small oil- and gas-producing companies stated that the standard imposed an unfair competitive disadvantage on them and that the full cost method was better measure of the costs of oil and gas resources. Those criticisms were eliminated with the adoption of Statement 25.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: See remaining alternatives. Since the FASB was requiring all companies to adopt successful efforts accounting, there are no rules for the application of full cost accounting except those issued by the SEC.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 20

TITLE: Accounting for Forward Exchange Contracts

KEY DATES:		
	Added to Board agenda	September 1977
	Exposure for public comment	November 1977
	Final Statement issued	December 1977

ISSUE(S) ADDRESSED: Statement 8 specified conditions that must be met for a company to defer (not recognize in current earnings) the gain or loss on a forward exchange contract used to hedge a foreign currency commitment. For example, a U.S. company might order equipment from a Swiss firm to be delivered in six months with the purchase price denominated in Swiss francs. The equipment would be recorded by the purchaser at the dollar equivalent of the SFr price on delivery date. Fearing the the SFr might rise in value before delivery, the purchaser might enter into a forward contract for SFr to be delivered on the date the equipment would be delivered. Statement 8 permitted the gain or loss on the contract to be deferred and included in the cost of the equipment under specified conditions.

SUMMARY OF STANDARD: The standard amended Statement 8 to permit companies to defer amounts arising from forward contracts in excess of the related commitment to the extent that the forward contract was intended to provide a hedge on an after-tax basis. For example, if the SFr commitment mentioned above is SFr1,000 and a 50 percent income tax rate applies to gains and losses on forward contracts, the company would need to buy forward SFr2,000 to have a net after-tax gain or loss that would fully hedge its commitment.

REASONS FOR ADOPTION: Statement 8 did not explicitly address after-tax hedging, but read literally, paragraph 27 seemed to preclude it, although after-tax hedging was consistent with the underlying theory of Statement 8. This was a highly technical point that was not brought up during the deliberations that led to Statement 8.

HOW THE STANDARD IMPROVED PREVIOUS PRACTICE: The standard clarified a complex point and presented a detailed example to provide further guidance on the accounting for hedges of foreign currency commitments.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: None.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None. The Statement was superseded by Statement 52, although the provisions of Statement 20 were retained in Statement 52.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 21

TITLE: Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises

KEY DATES:	Added to Board agenda	February 1978
	Exposure for public comment	February 1978
	Final Statement issued	April 1978

ISSUE(S) ADDRESSED: APB Opinion 15 requires that earnings per share data be presented on the face of a company's income statement and requires certain other disclosures in specified situations. Statement 14 requires disclosure of certain information relating to (a) the operations of a company in different industries, (b) its foreign operations and export sales, and (c) its major customers.

SUMMARY OF STANDARD: The standard suspends the requirements of APB 15 and Statement 14 in the financial statements of nonpublic enterprises. A nonpublic enterprise is a company other than one whose debt or equity securities trade in a public market or in the over-the-counter market or that is required to file financial statements with the Securities and Exchange Commission.

REASONS FOR ADOPTION: The standard was considered primarily because of the recommendations of the AICPA's report on small or closely held companies and the recommendations of the Board's Advisory Council, as well as public concern about small business "standards overload."

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: This standard relieves small or closely held companies of some of the burden of compliance with financial statement disclosure requirements.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some have indicated that the definition of a "nonpublic enterprise" is too broad and allows many companies that do not meet reasonable tests of "small" or "closely held" to not disclose the information. Others believe that there should be few or no differences between reporting standards for public and private companies.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 22

TITLE: Changes in the Provisions of Lease Agreements Resulting from Refundings of Tax-Exempt Debt

KEY DATES:		
	Added to Board agenda	December 1977
	Exposure for public comment	December 1977
	Final Statement issued	June 1978

ISSUE(S) ADDRESSED: A refunding involves the use of the proceeds from issuing new debt to retire existing debt. Some issuers of tax-exempt debt enter into such refundings and, concurrently, the terms of a related lease or mortgage note are changed to conform with the terms of the refunding issue. If a refunding of tax-exempt debt resulted in a change in the provisions of a lease and the revised lease was classified as a capital lease by a lessee or as a direct financing lease by a lessor, gain or loss was not recognized under Statement 13. However, if a refunding of tax-exempt debt resulted in a change in the terms of a mortgage note, any gain or loss arising from the change would be recognized currently under APB Opinion 26, "Early Extinguishment of Debt." Thus, for a specific complex transaction, two accounting standards were apparently contradictory.

SUMMARY OF STANDARD: The standard specifies that, if a change in the provisions of a lease results from a refunding by the lessor of tax-exempt debt that is accounted for as an early extinguishment (retirement) of debt, any resulting gain or loss from the adjustment must be recognized currently.

REASONS FOR ADOPTION: The standard was adopted to reconcile the inconsistency between Statement 13 and Opinion 26, as highlighted above.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: To enhance comparability, the standard clarifies the accounting for refundings of tax-exempt debt if changes in the provisions of related lease agreements are involved.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some have stated that the standard should apply to all types of refundings and not be limited to refundings involving only tax-exempt debt.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 23

TITLE: Inception of the Lease

KEY DATES:	Added to Board agenda	December 1977
	Exposure for public comment	December 1977
	Final Statement issued	August 1978

ISSUE(S) ADDRESSED: This Statement changes the definition of "inception of the lease" found in paragraph 5(b) of Statement 13, "Accounting for Leases." A lease is recorded at the beginning of the lease term using the classification that is determined at the date of the inception of the lease. (For general lease accounting, see the summary of Statement 13.)

SUMMARY OF STANDARD: The standard specifies that the inception of the lease is the date of the lease agreement or commitment, if earlier. A commitment shall be in writing, shall be signed, and shall set forth the principal provisions of the transaction. This definition eliminated the provision in Statement 13 that, if a lease was for property to be constructed or to be acquired by the lessor, the inception of the lease was the date that construction was completed or the property was acquired by the lessor. Statement 23 also amends two paragraphs of Statement 13 to provide that, if a lease has an escalation clause, "fair value at inception of the lease" is escalated to reflect any increases.

REASONS FOR ADOPTION: Under Statement 13, for some leasing transactions in which the lessor and lessee agree on lease terms prior to acquisition or construction of the asset to be leased, the literal application of Statement 13 resulted in a lease classification that did not reflect the economic considerations that entered into the agreements.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard provides a definition of the inception of the lease that better reflects the financial arrangements between lessors and lessees who reach a lease agreement prior to acquisition or construction of the asset to be leased.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: None.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 24

TITLE: Reporting Segment Information in Financial Statements That Are Presented in Another Enterprise's Financial Report

KEY DATES:	Added to Board agenda	March 1978
	Exposure for public comment	July 1978
	Final Statement issued	December 1978

ISSUE(S) ADDRESSED: This Statement addresses whether segment information required to be disclosed by Statement 14 should be disclosed in financial statements that are presented with the consolidated financial statements of a company.

SUMMARY OF STANDARD: If consolidated or combined financial statements are accompanied by a complete set of separate parent company, subsidiary, corporate joint venture, or investee company financial statements, the standard eliminates the requirement to disclose segment information in the separate financial statements of any entity included in the consolidated or combined statements, of certain foreign investee companies, and of certain nonpublic investee companies accounted for by the cost or equity method.

REASONS FOR ADOPTION: The standard was adopted to resolve the uncertainties about when segment information is required to be reported and when it is not.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard reduces the costs of complying with Statement 14 by not requiring segment disclosures for both the primary reporting entity and components of that entity.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some said that the exemption of certain companies in the standard was based on factors, such as the extent of outside ownership, location of incorporation, and the domicile of a company and its shareholders, that are not relevant in assessing the usefulness of the information.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 25

TITLE: Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies

KEY DATES:

Added to Board agenda	September 1978
Exposure for public comment	November 1978
Final Statement issued	February 1979

ISSUE(S) ADDRESSED: Following the controversy that surrounded the issuance of Statement 19, the SEC continued to permit, as an acceptable alternative for its reporting purposes, the use of an SEC-prescribed form of the full cost method of accounting. In view of the conflict between Statement 19 and SEC regulations, this Statement suspended the effective date for applying certain requirements of Statement 19 related to the successful efforts method of accounting.

SUMMARY OF STANDARD: In suspending those provisions of Statement 19, the Board allowed oil and gas producing companies not subject to SEC reporting requirements to continue their present method of accounting. The standard, however, retained those provisions of Statement 19 that dealt with the accounting for income taxes, the treatment of mineral property conveyances, the classification of production as payments of debt, and disclosure requirements mandated by Statement 19.

REASONS FOR ADOPTION: The Board recognized that the full cost method as adopted by the SEC as an acceptable alternative should be provided to companies not subject to SEC reporting requirements.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: Not applicable.

REMAINING ALTERNATIVES, IF ANY: Companies can continue to choose between the successful efforts and full cost methods of accounting for the costs of exploration and development of oil and natural gas.

CRITICISMS OF THE STANDARD: Some have criticized SEC Accounting Series Releases (ASRs) 257 and 258 for permitting the two basic methods of accounting to continue to exist for public companies. Since Statement 25 essentially made the provisions of ASRs 257 and 258 applicable to nonprivate companies also, Statement 25 receives similar criticism.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: See remaining alternatives.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 26

TITLE: Profit Recognition on Sales-Type Leases of Real Estate

KEY DATES:		
	Added to Board agenda	June 1978
	Exposure for public comment	December 1978
	Final Statement issued	April 1979

ISSUE(S) ADDRESSED: The Statement amends the classification of sales-type leases of real estate that give rise to a "sales-type" profit described in paragraph 8 of Statement 13, "Accounting for Leases." A sales-type lease (a classification applicable only to lessors) is a lease that is in substance a sale and gives rise to a profit or loss on the transaction. (For general lease accounting, see the summary of Statement 13.)

SUMMARY OF STANDARD: The standard specifies that a lease of real estate that would otherwise be classified as a sales-type lease shall be classified as an operating lease by the lessor if the lease results in a "sales-type" profit, unless it also meets the conditions for full and immediate profit recognition as described in the AICPA Industry Accounting Guide, "Accounting for Profit Recognition on Sales of Real Estate" (subsequently extracted in Statement 66).

REASONS FOR ADOPTION: Under Statement 13, the classification criteria of sales-type leases was different from and not as specific as those that relate to the recognition of profits on sales of real estate under the AICPA Accounting Guide.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates the inconsistency in profit recognition for real estate sales between Statement 13 and the AICPA Accounting Guide.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: One criticism was that the AICPA Accounting Guide (subsequently extracted in Statement 66) should govern just the profit recognition on sales-type leases of real estate and not the actual classification of the lease.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 27

TITLE: Classification of Renewals or Extensions of Existing Sales-Type or Direct Financing Leases

KEY DATES:	Added to Board agenda	January 1979
	Exposure for public comment	February 1979
	Final Statement issued	May 1979

ISSUE(S) ADDRESSED: This Statement modifies the classification requirements for a renewal or an extension of a sales-type or direct financing lease contained in Statement 13, "Accounting for Leases." (For general lease accounting, see the summary of Statement 13.)

SUMMARY OF STANDARD: The standard requires a lessor to classify a renewal or an extension of a sales-type lease or direct financing lease (leases that are in substance sales) as a sales-type lease if the lease would otherwise qualify as a sales-type lease and the renewal or extension occurs at or near the end of the lease term. Under Statement 13, a renewal or extension could not be classified as a sales-type lease. The standard does not, however, affect renewals or extensions occurring at other times during the lease term or changes in the provisions of existing lease terms.

REASONS FOR ADOPTION: Under Statement 13, it was possible for leases that had the same characteristics to be classified and accounted for differently. Specifically, renewals or extensions of operating leases and sales-type or direct financing leases could produce similar lease situations, but the accounting for each would be different, based upon the classification of the original lease.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates the inconsistency noted above.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: One criticism of the standard was that the timing of a renewal or extension should not affect the accounting for a lease.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 28

TITLE: Accounting for Sales with Leasebacks

KEY DATES:		
	Added to Board agenda	June 1978
	Exposure for public comment	December 1978
	Final Statement issued	May 1979

ISSUE(S) ADDRESSED: This Statement amends the accounting for a sale-leaseback transaction by the seller-lessee contained in Statement 13, "Accounting for Leases." A sale-leaseback transaction involves a sale of property by the owner and a lease of the property back to the seller. (For general lease accounting, see the summary of Statement 13.)

SUMMARY OF STANDARD: Under Statement 13, a sale-leaseback is generally treated as a single financing transaction, with any profit or loss on the sale deferred and amortized by the seller-lessee. The seller-lessee recognizes some profit or loss under Statement 28, however, in these circumstances: (a) if the seller-lessee retains the use of only a minor part of the property or a minor part of its remaining useful life through the leaseback or (b) if the seller retains more than a minor part but less than substantially all of the use of the property and the profit on the sale is greater than the present value of the leaseback rentals and therefore could not represent borrowings to be repaid.

REASONS FOR ADOPTION: Under Statement 13, with one exception, any profit or loss on the sale in a sale-leaseback would always be deferred and amortized, even if the leaseback only covered a small part of the property sold or a relatively short period of time. In some cases, the profit on the sale exceeded the total rentals under the leaseback, resulting in a negative rental.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard allows for immediate recognition on certain sales-leasebacks that are clearly not strictly financing arrangements.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: No significant criticisms have been raised that are not addressed in the standard. However, confusion exists as to the issue discussed below.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: The FASB staff is investigating whether it is appropriate for a seller-lessee to report a real estate sale-leaseback transaction as a sale when the agreement contains a repurchase option or requirement.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 29

TITLE: Determining Contingent Rentals

KEY DATES:		
	Added to Board agenda	October 1978
	Exposure for public comment	December 1978
	Final Statement issued	June 1979

ISSUE(S) ADDRESSED: This Statement clarifies the definition of contingent rentals in Statement 13. Contingent rentals are excluded from minimum lease payments and affect both the classification of and ongoing accounting for leases. (For general lease accounting, see the summary for Statement 13.)

SUMMARY OF STANDARD: The standard defines contingent rentals as the increases or decreases in lease payments that result from changes in factors that do not exist or are not measurable at the inception of the lease (e.g., rentals based on future changes in market indexes such as the Consumer Price Index). Statement 13 previously described contingent rentals as rentals on which the amounts are dependent on some factor other than the passage of time.

REASONS FOR ADOPTION: The definition was clarified because, under Statement 13, a diversity in practice had developed over the determination of contingent rentals.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard eliminates confusion over how to determine contingent rentals.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some argued that contingent rentals that were judged to be probable of payment should be treated as a component of minimum lease payments.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 30

TITLE: Disclosure of Information about Major Customers

KEY DATES:	Added to Board agenda	November 1978
	Exposure for public comment	March 1979
	Final Statement issued	August 1979

ISSUE(S) ADDRESSED: This Statement addresses the disclosure of information about a company's major customers, specifically those customers that are domestic governmental agencies or foreign governments.

SUMMARY OF STANDARD: The standard supersedes paragraph 39 of Statement 14 to require disclosure of the amount of revenue derived from sales to individual domestic or foreign governments when those revenues equal or exceed 10 percent of the company's revenue. Previously, disclosure of the amount of revenue derived from sales to domestic governments in the aggregate or to foreign governments in the aggregate was required when those revenues met or exceeded the 10 percent test.

REASONS FOR ADOPTION: Questions arose as to the usefulness of disclosing aggregate amounts, such as revenue derived from sales to federal, state, and county agencies or from sales to foreign governments, when no apparent relationship existed among the domestic agencies or among the foreign governments being aggregated. Some contended they would have to change their record-keeping systems at considerable cost to obtain the information.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard improves the information available to financial statement users about the extent of an company's reliance on a single customer and eliminates a requirement that would have been costly to some companies to implement.

REMAINING ALTERNATIVES, IF ANY: The appropriate application of the above guidance should result in similar treatment of information about major customers and, thus, alternative treatments for the same underlying circumstances do not exist.

CRITICISMS OF THE STANDARD: None.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 31

TITLE: Accounting for Tax Benefits Related to U.K. Tax Legislation concerning Stock Relief

KEY DATES:		
	Added to Board agenda	July 1979
	Exposure for public comment	July 1979
	Final Statement issued	September 1979

ISSUE(S) ADDRESSED: This Statement specifies how a company subject to U.S. generally accepted accounting principles should account for previously deferred income taxes that will not become payable because of a change in the U.K.'s tax law to limit the timing and the amount of tax that can be recaptured from "stock relief" tax deductions. (U.K. tax law permits an income tax deduction for increases in the carrying amount of inventories or "stock," as it is known in the U.K.).

SUMMARY OF STANDARD: The standard requires that the tax benefits from "stock relief" be deferred unless it is probable that the tax benefit will not be recaptured prior to the end of the recapture period. If it is determined that the tax benefit will not be recaptured prior to the end of the recapture period, the tax benefit previously deferred shall be recognized by a reduction of income tax expense in the period in which that assessment is made. If the tax benefits from "stock relief" have not been deferred and circumstances subsequently change, the tax that will be incurred shall be accrued and charged to income tax expense in the period in which circumstances change.

REASONS FOR ADOPTION: In July 1979, the U.K. adopted legislation to limit the timing and the amount of tax that could be recaptured from "stock relief" tax deductions. The FASB was asked to clarify the accounting for income taxes related to the changes in the U.K. tax law.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard provides guidance regarding the accounting for those previously deferred income taxes and, therefore, eliminates alternative approaches.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some preferred not to recognize the deferred tax benefits until the recapture period had passed. They viewed the "stock relief" deduction as a timing difference* that would reverse on recapture or become a permanent difference after the recapture period.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

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*Timing differences are differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 32

TITLE: Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters

KEY DATES:		
	Added to Board agenda	September 1978
	Exposure for public comment	June 1979
	Final Statement issued	September 1979

ISSUE(S) ADDRESSED: This Statement addresses preferability of accounting specified in certain AICPA pronouncements for justifying a change in accounting principles as required by APB Opinion 20, "Accounting Changes."

SUMMARY OF STANDARD: This standard specifies that specialized accounting and reporting principles and practices contained in the AICPA Statements of Position and Guides on accounting and auditing matters designated in Statement 32 and its amendments are preferable accounting principles for purposes of justifying a change in accounting principles as required by Opinion 20.

REASONS FOR ADOPTION: After the Board agreed to exercise responsibility for specialized principles and practices, there was uncertainty in practice about the ongoing status of the specialized accounting and reporting principles and practices contained in the AICPA Statements of Position and Industry Guides on accounting and auditing matters.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard provided authoritative guidance to companies in their initial selection of accounting principles and changes in accounting principles.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: As part of Statement 32 the Board committed itself to addressing certain detailed industry-specific issues that were previously addressed by AICPA pronouncements. The proliferation of FASB standards that have been issued as a result of exercising responsibility for specialized accounting issues has created a perception of standards overload.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 33

TITLE: Financial Reporting and Changing Prices

KEY DATES:		
	Added to Board agenda	January 1974
	Discussion Memorandum issued	February 1974
	First Public Hearing held	April 1974
	First exposure for public comment	December 1974
	Second exposure for public comment	December 1978
	Third exposure for public comment	March 1979
	Second Public Hearing held	June 1979
	Final Statement issued	September 1979

ISSUE(S) ADDRESSED: This Statement is a response to concern about traditional financial reporting in times of inflation. Financial statements are prepared using the historical cost basis of accounting, which includes assets at their original purchase price with no adjustment for asset value increases. Inflation raises questions about how well historical cost financial statements portray the underlying economic events.

SUMMARY OF STANDARD: The standard requires large publicly held companies to supplement their historical cost financial statements with (a) certain information restated based on changes in the Consumer Price Index and (b) information about the current cost of selected assets (inventory and property, plant, and equipment) and other information. Some of the information is required to be shown only for the current year and other information for each of the past five years.

REASONS FOR ADOPTION: The double-digit inflation of the mid 1970s produced upward price trends that caused the unadjusted past prices reported in the financial statements to be significantly different from the current prices of those same assets. This situation was the impetus for the FASB project that resulted in Statement 33.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard represents an experiment conducted to improve reporting of the effects of inflation. As an experiment, disclosures under two methods were required and greater flexibility and judgment than are typically found in FASB Statements were allowed. With experience, the flexibility and judgment should result in better inflation-oriented reporting.

REMAINING ALTERNATIVES, IF ANY: The major alternatives that remain relate to refining the methodology and tailoring it for companies with highly specialized assets. A number of the amendments to Statement 33 deal with specialized industry issues.

CRITICISMS OF THE STANDARD: Statement 33 has been criticized because it permits too many options and the information has not been widely used. Reasons offered for this lack of use include the complexity of the methodology, duplication (both general and specific price change methods are employed), and the latitude allowed preparers in measuring the current cost of assets.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: At present, a review of Statement 33 is underway. In addition to Statement 82, which eliminates certain disclosure requirements, an Exposure Draft was issued in December 1984 that combines Statement 33 and its subsequent amendments and proposes some changes to improve the usefulness of the information.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 34

TITLE: Capitalization of Interest Cost

KEY DATES:		
	Added to Board agenda	November 1974
	Discussion Memorandum issued	December 1977
	Public Hearing held	April 1978
	Exposure for public comment	December 1978
	Final Statement issued	October 1979

ISSUE(S) ADDRESSED: This Statement addresses the circumstances under which interest cost should be considered to be part of the historical cost of acquiring an asset (i.e., to be capitalized) and the amount and timing of interest cost to be capitalized.

SUMMARY OF STANDARD: The standard requires the capitalization of interest costs associated with the acquisition of assets requiring a period of time to prepare them for their intended use. The amount capitalized is an allocation of the interest cost incurred during the period required to complete the asset and is based on rates associated with the company's outstanding borrowings. The capitalization period begins when expenditures for the asset have been made, development of the asset has begun, and interest cost is being incurred. Interest may <u>not</u> be capitalized on inventory items that are routinely manufactured or are repeatedly produced in large quantities, on assets that are ready for use though not being used, or on assets whose construction has been stopped.

REASONS FOR ADOPTION: The sharp rise in interest rates and the increased use of borrowed funds in the 1970s sparked much interest in the accounting for interest costs. In 1971, a committee of the Accounting Principles Board (APB) prepared a paper addressing the principal issues of interest cost accounting. In 1974, the SEC became concerned when it noted an increase in the number of nonutility registrants that were adopting a policy of capitalizing interest as part of the cost of certain assets.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The Statement enhances comparability by providing specific guidelines for the capitalization of interest costs.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some believe that interest costs should never be included in the cost of an asset or should only be included in the cost of assets that are specifically debt-financed. Some small businesses criticize the standard for requiring complex calculations.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: The Statement included a reference to materiality, which is not usually done. This raised questions that were resolved when Statement 42 amended Statement 34 to delete the reference.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 35

TITLE: Accounting and Reporting by Defined Benefit Pension Plans

KEY DATES:		
	Added to Board agenda	November 1974
	Discussion Memorandum issued	October 1975
	Public Hearing held	February 1976
	First exposure for public comment	April 1977
	Second exposure for public comment	July 1979
	Final Statement issued	March 1980

ISSUE(S) ADDRESSED: This Statement addresses the accounting and reporting by defined benefit pension plans.

SUMMARY OF STANDARD: The standard specifies the information that the financial statements of a plan shall include regarding (a) the net assets available to pay benefits, (b) the changes in net assets during the period, (c) the actuarial present value of accumulated plan benefits, and (d) the effects of factors such as plan amendments and changes in actuarial assumptions on the accumulated plan benefits. The Statement also requires disclosure of the plan's accounting policies.

REASONS FOR ADOPTION: Financial reporting by defined benefit pension plans in the private sector was generally quite limited before 1976. The Employee Retirement Income Security Act of 1974 (ERISA) required annual reporting of certain information to particular government agencies and plan participants. ERISA also required that the pension plan financial statements be audited to ensure that they comply with generally accepted accounting principles. Prior to this Statement, no authoritative accounting pronouncement addressed financial accounting and reporting standards specifically for defined benefit pension plans.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard requires plans to provide information useful in assessing the plan's present and future ability to pay benefits when due and the performance of pension plan administrators and other fiduciaries in managing the assets they control. Major improvements included (a) consistent dates for valuing assets and measuring benefits, (b) uniform actuarial method for measuring benefits, (c) additional information regarding vested and nonvested benefits, and (d) guidance for defining how plan assets should be measured.

REMAINING ALTERNATIVES, IF ANY: Some flexibility is still permitted in the format for presenting the obligation to provide promised benefits.

CRITICISMS OF THE STANDARD: Critics claimed the standard prescribes detailed reporting beyond reasonable usefulness to plan participants. Also, some said that by incorporating certain information in the plan's financial statements, the standard lends an unjustified aura of reliability to estimates of the future. Others criticized the exclusion from plan financial statements of obligations to participants.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 36

TITLE: Disclosure of Pension Information

KEY DATES:		
	Added to Board agenda	May 1979
	Exposure for public comment	July 1979
	Final Statement issued	May 1980

ISSUE(S) ADDRESSED: This Statement addresses the disclosure in employers' financial statements about the financial status of their pension plans.

SUMMARY OF STANDARD: The standard requires revised disclosures about defined benefit pension plans in employers' financial statements. The revised disclosures inc`ude the actuarial present value of accumulated plan benefits and the pension plan assets available to pay those benefits. The standard is an interim step in the Board's project on employers' accounting for pensions.

REASONS FOR ADOPTION: The pension environment had changed since APB Opinion 8, "Accounting for the Cost of Pension Plans," was issued in 1966. The number of pension plans and the amount of benefits provided had grown enormously. Also, there had been significant changes in laws and regulations, including the introduction of the Employee Retirement Income Security Act of 1974. The flexibility permitted under previous accounting rules resulted in a lack of comparable reporting among employers.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard enhances comparability among employers who have defined benefit pension plans by specifying certain data that must be disclosed in the notes to the employer's financial statements.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some believe that the Board should not have changed rules concerning disclosure of pension plan information pending completion of the Board's pension project. Also, some believe that the costs of providing and assimilating the required disclosures exceeds the benefit to users that are expected to result from providing the information. Others have stated that the measurement approach for the actuarial present value of accumulated plan benefits is conceptually flawed and results in significant understatement of such benefits.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: Questions of the adequacy of the levels of disclosure required in this Statement have arisen in recent years and are currently being addressed in the Board's project on employers' accounting for pensions.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 37

TITLE: Balance Sheet Classification of Deferred Income Taxes

KEY DATES:		
	Added to Board agenda	April 1979
	Proposed Interpretation for public comment	June 1979
	Second exposure for public comment	March 1980
	Final Statement issued	July 1980

ISSUE(S) ADDRESSED: This Statement addresses the basis for classifying deferred income taxes in a classified balance sheet. Deferred income taxes can be classified as current, or noncurrent, or allocated between current and noncurrent depending upon the circumstances.

SUMMARY OF STANDARD: The standard specifies that deferred income taxes related to an asset or liability are to be classified the same as the related asset or liability. Deferred income taxes that are not related to an asset or liability are classified according to the expected reversal date of the timing difference. (Timing differences are differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.)

REASONS FOR ADOPTION: APB Opinion 11 required deferred income taxes to be classified in a balance sheet as current or noncurrent based on the classification of assets or liabilities related to the timing differences. Some timing differences, however, are not related to an asset or liability. Statement 37 clarified the classification of deferred income taxes when there is no related asset or liability.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: Opinion 11 did not address classification of deferred income taxes that are not related to an asset or liability. The standard provides guidance on how to classify those deferred income taxes.

REMAINING ALTERNATIVES, IF ANY: The application of the guidance in Statement 37 should result in similar transactions being treated similarly and eliminate alternative treatments.

CRITICISMS OF THE STANDARD: Some would prefer to exclude deferred income taxes from working capital (items classified as current) and present all deferred income taxes in one place on the balance sheet.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None at this time. However, accounting for income taxes is the subject of a major FASB project which is reconsidering Opinion 11 and other standards (including this Statement) on accounting for income taxes.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 38

TITLE: Accounting for Preacquisition Contingencies of Purchased Enterprises

KEY DATES:	Added to Board agenda	May 1979
	Exposure for public comment	December 1979
	Final Statement issued	September 1980

ISSUE(S) ADDRESSED: A company may purchase another company when the acquired company is subject to significant contingencies such as pending litigation. The key accounting issue is how the acquiring company should account for those contingencies, both at the date of acquisition and at the date(s) when they are finally resolved.

SUMMARY OF STANDARD: The standard specifies that preacquisition contingencies shall be estimated and accrued as a liability at the date of acquisition, provided evidence exists that an asset has been impaired or a liability incurred. For a reasonable period following the acquisition (generally one year), adjustments to the estimate are permitted and these adjustments do not affect net income. Subsequent adjustments (generally after one year) must be included in net income of the period in which the adjustments are determined to be necessary.

REASONS FOR ADOPTION: Prior to this Statement, it was not clear from existing accounting literature whether preacquisition contingencies of an acquired company should be accrued by the acquirer at the acquisition date.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: The standard clarifies the accounting to be applied to preacquisition contingencies and adjustments that result from resolution of those contingencies. The Board applied the rationale underlying Statement 5 in this Statement, thus eliminating alternative accounting practices and thereby enhancing the comparability of financial information.

REMAINING ALTERNATIVES, IF ANY: None.

CRITICISMS OF THE STANDARD: Some argued that subsequent adjustments to the accruals for preacquisition contingencies should never affect net income of the acquirer, regardless of how much time had passed before the contingencies were resolved.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: None.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 39

TITLE: Financial Reporting and Changing Prices: Specialized Assets--Mining and Oil and Gas

KEY DATES:		
	Statement 33 added to Board agenda	January 1974
	Statement 39 added to Board agenda	December 1978
	Exposure for public comment	April 1980
	Public Hearing held	July 1980
	Final Statement issued	October 1980

ISSUE(S) ADDRESSED: Mining and oil and gas companies are involved in discovering and developing mineral resource assets. As a form of inventory, mineral resources assets are quite different from other types of inventory for which current costs are reported under Statement 33. The special nature of the discovery and development process makes it difficult to determine what it would currently cost to obtain mineral resource assets equivalent to those presently held. Statement 33 recognized this and exempted mineral resource assets from the current cost disclosures.

SUMMARY OF STANDARD: The standard amends Statement 33 to require current cost disclosure of mineral resource assets, and it provides guidance for the calculations. The standard allows the historical cost of mineral resource assets (when restated for purchasing power changes) to be used as a surrogate for the current cost amount. In addition, the standard sets out several additional disclosures that must be included in the five-year summary specified by Statement 33 by large publicly held companies, namely, quantity and price information about oil and gas reserves.

REASONS FOR ADOPTION: When Statement 33 was being prepared, the inherent difficulty in calculating meaningful current cost amounts for specialized assets was recognized. Rather than delaying Statement 33 until the specialized industry problems were solved, Statement 33 exempted mineral resource assets from the current cost disclosures. Companies with mineral resource assets were required to prepare the other disclosures required by Statement 33 with the understanding that the FASB would continue to work on current cost guidance for specialized assets. Statement 39 provides the additional guidance for mineral resource assets.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: See summary of Statement 33.

REMAINING ALTERNATIVES, IF ANY: Companies may elect to use estimates of current cost in lieu of the surrogate measure permitted by this Statement, but are unlikely to do so due to the inherent difficulties in measurement.

CRITICISMS OF THE STANDARD: Critics have questioned the appropriateness of using historical cost restated for purchasing power changes as a surrogate for current cost.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: See summary of Statement 33.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 40

TITLE: Financial Reporting and Changing Prices: Specialized Assets--Timberlands and Growing Timber

KEY DATES:

Statement 33 added to Board agenda	January 1974
Statement 40 added to Board agenda	December 1978
Exposure for public comment	April 1980
Public Hearing held	July 1980
Final Statement issued	November 1980

ISSUE(S) ADDRESSED: Timberlands and growing timber have certain special features--the physical growth of the timber while it is held and the long time that elapses between planting and maturity--that raise doubts about the usefulness of the current cost measures required for other inventories under Statement 33 by large publicly held companies. Statement 33 recognized this and allowed companies to use the historical cost of timberlands and growing timber when restated for purchasing power changes as a surrogate for the current cost amount.

SUMMARY OF STANDARD: The standard continues the special current cost measurement requirements for timberlands and growing timber outlined in Statement 33. The wording of Statement 33 made it necessary for the FASB to take specific action to continue the special requirements even though no new or revised current cost calculations were developed from the additional consideration given to the nature of these specialized assets.

REASONS FOR ADOPTION: When Statement 33 was being prepared, the inherent difficulty in calculating meaningful current cost amounts for specialized assets was recognized. Rather than delaying Statement 33 until the specialized asset problems were solved, Statement 33 was issued with special current cost disclosure requirements for certain specialized assets (including timberlands and growing timber). This Statement was issued after further consideration had been given to the special circumstances found in the forest products industry.

HOW THE STANDARD IMPROVES PREVIOUS PRACTICE: See summary of Statement 33.

REMAINING ALTERNATIVES, IF ANY: Companies may elect to use estimates of current cost in lieu of the surrogate measure permitted by this Statement, but are unlikely to do so due to the inherent difficulties in measurement.

CRITICISMS OF THE STANDARD: Critics have questioned the appropriateness of using historical cost restated for purchasing power changes as a surrogate for current cost.

ACCOUNTING OR IMPLEMENTATION PROBLEMS THAT REMAIN: See summary of Statement 33.