

Statement of Financial Accounting Standards No. 32

Note: This Statement has been completely superseded

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

an amendment of APB Opinion No. 20

September 1979



Financial Accounting Standards Board

of the Financial Accounting Foundation

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Specialized Accounting and Reporting Principles and
Practices in AICPA Statements of Position and Guides
on Accounting and Auditing Matters
an amendment of APB Opinion No. 20
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FAS 32: Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters

an amendment of APB Opinion No. 20

FAS 32 Summary

The Board has agreed to exercise responsibility for the specialized accounting and reporting principles and practices in the AICPA Statements of Position and Guides on accounting and auditing matters by extracting those specialized principles and practices from those documents and issuing them as FASB Statements, after appropriate due process. This has created uncertainty regarding the ongoing status of those specialized principles and practices. This Statement specifies that the specialized accounting and reporting principles and practices contained in the AICPA Statements of Position and Guides on accounting and auditing matters designated herein are preferable accounting principles for purposes of justifying a change in accounting principles as required by APB Opinion No. 20, *Accounting Changes*.

INTRODUCTION AND BACKGROUND INFORMATION

1. On November 7, 1978, the FASB issued a *Request for Written Comments on an FASB Proposal for Dealing with Industry Accounting Matters and Accounting Questions of Limited Application* (Proposal) that outlined proposed procedures for the Board to adopt the AICPA Statements of Position (SOPs) and Guides on accounting and auditing matters as FASB Statements and thereafter to exercise responsibility for amending and interpreting them. One hundred fifty-seven letters of comment were received on the Proposal. Some respondents expressed concern that the status and authority of the SOPs and Guides would be weakened by the Board's decision to begin due process proceedings toward issuing final FASB Statements concerning the accounting and reporting principles and practices in those SOPs and Guides. Their concern centered on the possibility that the accounting principles in those documents would not be followed pending release of final FASB Statements.

2. At its meetings on March 22 and April 26, 1979, the Board agreed to exercise responsibility for all the specialized ¹ accounting and reporting principles and practices in the existing AICPA SOPs and Guides by extracting those specialized principles and practices from the SOPs and Guides and issuing them as FASB Statements, after appropriate due process. As explained in paragraph 8, the Board deferred similar action with regard to those specialized accounting and reporting principles and practices contained in the Industry Audit Guide, *Audits of State and Local Governmental Units*, and the two SOPs (75-3 and 77-2) that supplement that Guide.

3. The Board has considered respondents' concerns about the uncertainty regarding the status of the specialized accounting and reporting principles and practices in the SOPs and Guides and decided to clarify the ongoing status of those specialized principles and practices. The Board considers those specialized principles and practices in the SOPs and Guides listed in Appendix A to be preferable accounting principles for purposes of applying APB Opinion No. 20, *Accounting Changes*.

4. The Board also noted that four Guides and one SOP do not contain any specialized accounting and reporting principles and practices. The Guides, *The Auditor's Study and Evaluation of Internal Control in EDP Systems* (1977), *Audits of Service-Center-Produced Records* (1974), *Computer Assisted Audit Techniques* (1979), and *Medicare Audit Guide* (1969), relate solely to auditing procedures. SOP 75-4, *Presentation and Disclosure of Financial Forecasts*, relates to supplemental financial information that is not now required to be disclosed and is not part of basic historical financial statements prepared in conformity with generally accepted accounting principles. Accordingly, this Statement does not apply to those Guides and the SOP. In addition, the Board noted that the AICPA Auditing Standards Division has published four auditing SOPs that do not contain any specialized accounting and reporting principles and practices and, accordingly, are excluded from Appendix A.

5. An Exposure Draft of a proposed Statement on *Specialized Accounting and Reporting Principles and Practices in AICPA Industry Accounting Guides, Industry Audit Guides, and Statements of Position* was issued on June 1, 1979. The Board received 53 letters of comment in response to the Exposure Draft.

6. Several respondents expressed concern that without proper due process the Board was designating the specialized accounting and reporting principles and practices in those Guides and SOPs as standards covered by Rule 203 of the AICPA's Rules of Conduct, which explains the authority of FASB pronouncements. Such designation would have required enterprises to conform with those specialized principles and practices, a requirement that respondents noted was in conflict with paragraph 3 of the Exposure Draft, which stated that "this Statement does not require any enterprise to change the accounting principles it currently uses to those specified in the Guides and SOPs." The Board was not implying that the specialized accounting and reporting principles and practices in the Guides and SOPs are now standards covered by Rule 203; rather, the Board was acknowledging that those specialized principles and practices were

encompassed in the conventions, rules, and procedures referred to as "generally accepted accounting principles." This Statement has been modified to clarify that point.

7. Several respondents noted that the Exposure Draft did not address the preferability of the specialized accounting and reporting principles and practices in the SOPs and Guides with respect to the initial adoption of an accounting principle. They recommended that the Board require enterprises to follow those specialized principles and practices upon initial adoption. The Board believes it should not take any position with respect to initial adoption prior to completion of appropriate due process on the specialized principles and practices.

8. The Board defers action with respect to exercising responsibility for the specialized accounting and reporting principles and practices in the Guide on state and local government accounting and the two related SOPs. In so doing, the Board notes that at the present time the accounting and reporting by such governmental units is addressed by the National Council on Governmental Accounting (NCGA) and the AICPA. The Board also notes that discussions are being held with interested parties, including the NCGA and AICPA, as to what the appropriate structure for accounting standard setting for such governmental units should be. Until the matter is resolved, the FASB is proposing no changes with respect to its involvement with pronouncements in that area and, accordingly, is omitting that Guide and related SOPs from Appendix A. However, some respondents have objected to this omission because they were concerned that it may create the impression that the specialized principles and practices in those documents would not be considered as generally accepted accounting principles. In deferring action with respect to state and local government accounting, the Board emphasizes that it does not intend to change the status or discourage the use of the Guide and SOPs on those matters.

9. The Accounting Standards Executive Committee (AcSEC) of the AICPA has a limited number of projects in process that it expects will result in the issuance of SOPs or Guide revisions within approximately a year. Those projects are listed in Appendix B. In addition, the Board may request AcSEC to undertake issuance of an SOP or Guide during the period prior to the extraction of the specialized accounting and reporting principles and practices from the SOPs and Guides and the issuance of them in FASB Statements. The Board plans to review any specialized principles and practices contained in any such SOPs and Guides before issuance and, if the Board finds them acceptable, it will, after appropriate due process, issue Interpretations of this Statement announcing that they are preferable accounting principles for purposes of applying Opinion 20.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

10. The specialized accounting and reporting principles and practices contained in the AICPA SOPs and Guides on accounting and auditing matters listed in Appendix A are preferable accounting principles for purposes of applying Opinion 20.²

Amendment to APB Opinion No. 20

11. Footnote 5 to paragraph 16 of Opinion 20 is superseded by the following:

The specialized accounting and reporting principles and practices contained in the AICPA Statements of Position and Guides on accounting and auditing matters listed in Appendix A of FASB Statement No. 32 are preferable accounting principles for purposes of justifying a change in accounting principle (paragraph 4).

Effective Date

12. This Statement shall be effective October 31, 1979. Earlier application is encouraged.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*

Frank E. Block

John W. March

Robert A. Morgan

David Mosso

Robert T. Sprouse

Ralph E. Walters

Appendix A: CERTAIN AICPA STATEMENTS OF POSITION AND GUIDES ON ACCOUNTING AND AUDITING MATTERS THAT CONTAIN SPECIALIZED ACCOUNTING AND REPORTING PRINCIPLES AND PRACTICES

Statements of Position

SOP 74-6	Recognition of Profit on Sales of Receivables with Recourse
SOP 74-8	Financial Accounting and Reporting by Colleges and Universities
SOP 74-11	Financial Accounting and Reporting by Face-Amount Certificate Companies
SOP 74-12	Accounting Practices in the Mortgage Banking Industry
SOP 75-1	Revenue Recognition When Right of Return Exists
SOP 75-2	Accounting Practices of Real Estate Investment Trusts

SOP 75-5	Accounting Practices in the Broadcasting Industry
SOP 75-6	Questions Concerning Profit Recognition on Sales of Real Estate
SOP 76-1	Accounting Practices in the Record and Music Industry
SOP 76-2	Accounting for Origination Costs and Loan and Commitment Fees in the Mortgage Banking Industry
SOP 76-3	Accounting Practices for Certain Employee Stock Ownership Plans
SOP 77-1	Financial Accounting and Reporting by Investment Companies
SOP 78-1	Accounting by Hospitals for Certain Marketable Equity Securities
SOP 78-2	Accounting Practices of Real Estate Investment Trusts
SOP 78-3	Accounting for Costs to Sell and Rent, and Initial Rental Operations of, Real Estate Projects
SOP 78-4	Application of the Deposit, Installment, and Cost Recovery Methods in Accounting for Sales of Real Estate
SOP 78-5	Accounting for Advance Refundings of Tax-Exempt Debt
SOP 78-6	Accounting for Property and Liability Insurance Companies
SOP 78-7	Financial Accounting and Reporting by Hospitals Operated by a Governmental Unit
SOP 78-8	Accounting for Product Financing Arrangements
SOP 78-9	Accounting for Investments in Real Estate Ventures
SOP 78-10	Accounting Principles and Reporting Practices for Certain Nonprofit Organizations
SOP 79-1	Accounting for Municipal Bond Funds
SOP 79-2	Accounting by Cable Television Companies
SOP 79-3	Accounting for Investments of Stock Life Insurance Companies
SOP 79-4	Accounting for Motion Picture Films

Industry Accounting Guides

Accounting for Franchise Fee Revenue, 1973

Accounting for Motion Picture Films, 1973 (see also SOP 79-4)

Accounting for Profit Recognition on Sales of Real Estate, 1973 (see also SOPs 75-6 and 78-4)

Accounting for Retail Land Sales, 1973

Industry Audit Guides

Audits of Banks, Including Supplement, 1969

Audits of Brokers and Dealers in Securities, 1973

Audits of Colleges and Universities, 1973 (see also SOP 74-8)

Audits of Construction Contractors, 1965

Audits of Employee Health and Welfare Benefit Funds, 1972

Audits of Finance Companies, 1973

Audits of Fire and Casualty Insurance Companies, 1966 (see also SOP 78-6)

Audits of Government Contractors, 1975
Audits of Investment Companies, 1973 (see also SOPs 74-11, 77-1, and 79-1)
Audits of Personal Financial Statements, 1968
Audits of Stock Life Insurance Companies, 1972 (see also SOP 79-3)
Audits of Voluntary Health and Welfare Organizations, 1974
Hospital Audit Guide, 1972 (see also SOPs 78-1 and 78-7)

Audit and Accounting Guide

Savings and Loan Associations, 1979

Appendix B: AICPA PROJECTS THAT ARE SCHEDULED TO RESULT IN 1980 IN REVISIONS TO AICPA GUIDES OR STATEMENTS OF POSITION THAT ARE ADDRESSED BY THIS STATEMENT AND EXPECTED TO CONTAIN SPECIALIZED ACCOUNTING AND REPORTING PRINCIPLES AND PRACTICES

Projects Expected to Result in Revisions to Guides

Guide for Banks
Guide for Personal Financial Statements
Guide for Construction Contractors
Guide for Brokers and Dealers in Securities
Projects Expected to Result in a Statement of Position
Accounting by Title Insurance Companies
Reporting Practices Concerning Hospital Related Organizations
Accounting for Real Estate Acquisition, Development, and Construction Costs
Accounting for Performance of Construction-Type and Certain Production-Type Contracts

Footnotes

FAS32, Footnote 1--The term *specialized* is used to refer to those current accounting and reporting principles and practices in the existing AICPA Guides and SOPs that are neither superseded by nor contained in the ARBs, APB Opinions, FASB Statements, and FASB Interpretations.

FAS32, Footnote 2--By Interpretations of this Statement, the Board may also designate as preferable for purposes of applying Opinion 20 the specialized accounting and reporting principles and practices in future AICPA SOPs and Guides either related to AcSEC projects listed in Appendix B or undertaken by AcSEC at the Board's request.