APB 12: Omnibus Opinion—1967
Classification and Disclosure of Allowances
Disclosure of Depreciable Assets and Depreciation
Deferred Compensation Contracts
Capital Changes
Convertible Debt and Debt Issued with Stock Warrants
Amortization of Debt Discount and Expense or Premium

APB 12 STATUS

Issued: December 1967

Effective Date: For fiscal periods beginning after December 31, 1967

Affects: Amends APB 10, paragraphs 8 and 9

Affected by: Paragraph 6 amended by FAS 87, paragraph 9, and FAS 106, paragraph 13
Paragraphs 11 through 15 and footnote 2 deleted by APB 14, paragraph 2
Footnote 1 replaced by FAS 106, paragraph 13, and FAS 111, paragraph 8(f)

AICPA Accounting Standards Executive Committee (AcSEC)

Related Pronouncements: SOP 94-6
SOP 97-1
SOP 01-6
PB 4
PB 5

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: No EITF Issues

Interpreted by: No EITF Issues

Related Issues: EITF Issues No. 88-23, 96-5, 97-14, 06-4, and 06-10

INTRODUCTION

1. This is the second of a series of Opinions which the Board expects to issue periodically containing:

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

CLASSIFICATION AND DISCLOSURE OF ALLOWANCES

2. Although it is generally accepted that accumulated allowances for depreciation and depletion and asset valuation allowances for losses such as those on receivables and investments should be deducted from the assets to which they relate, there are instances in which these allowances are shown among liabilities or elsewhere on the credit side of the balance sheet.

3. It is the Board's opinion that such allowances should be deducted from the assets or groups of assets to which the allowances relate, with appropriate disclosure.

DISCLOSURE OF DEPRECIABLE ASSETS AND DEPRECIATION

4. Disclosure of the total amount of depreciation expense entering into the determination of results of operations has become a general practice. The balances of major classes of depreciable assets are also generally disclosed. Practice varies, however, with respect to disclosure of the depreciation method or methods used.

5. Because of the significant effects on financial position and results of operations of the depreciation method or methods used, the following disclosures should be made in the financial statements or in notes thereto:

a. Depreciation expense for the period,
b. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date,
c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date, and
d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.

DEFERRED COMPENSATION CONTRACTS

6. FASB Statement No. 87, *Employers' Accounting for Pensions,* or Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* applies to deferred compensation contracts with individual employees if those contracts, taken together, are equivalent to a postretirement income plan or a postretirement health or welfare benefit plan, respectively. Other deferred compensation contracts shall be accounted for individually on an accrual basis in accordance with the terms of the underlying contract.

6A. To the extent the terms of the contract attribute all or a portion of the expected future benefits to an individual year of the employee's service, the cost of those benefits shall be recognized in that year. To the extent the terms of the contract attribute all or a portion of the expected future benefits to a period of service greater than one year, the cost of those benefits shall be accrued over that period of the employee's service in a systematic and rational manner. At the end of that period the aggregate amount accrued shall equal the then present value of the benefits expected to be provided to the employee, any beneficiaries, and covered dependents in exchange for the employee's service to that date. [i]**1** If elements of both current and future services are present, only the portion applicable to the current services should be accrued.

7. Some deferred compensation contracts provide for periodic payments to employees or their surviving spouses for life with provisions for a minimum lump-sum settlement in the event of the early death of one or all of the beneficiaries. The estimated amount [ii]**1** of future payments to be made under such contracts should be accrued over the period of active employment from the time the contract is entered into. Such estimates should be based on the life expectancy of each individual concerned (based on the most recent mortality tables available) or on the estimated cost of an annuity contract rather than on the minimum payable in the event of early death.

8. At the effective date of this Opinion, amounts [iii]**1** pertaining to deferred compensation contracts with employees actively employed, which amounts have not been accrued in a manner consistent with the

provisions of the Opinion, should be accrued over the employee's remaining term of active employment. For purposes of transition, these amounts may be accrued over a period of up to ten years if the remaining term of active employment is less than ten years.

CAPITAL CHANGES

9. Paragraph 7 of APB Opinion No. 9, *Reporting the Results of Operations*, states that "The statement of income and the statement of retained earnings (separately or combined) are designed to reflect, in a broad sense, the 'results of operations'." Paragraph 28 of APB Opinion No. 9 states that certain capital transactions ". . . should be excluded from the determination of net income or the results of operations under all circumstances." Companies generally have reported the current year's changes in stockholders' equity accounts other than retained earnings in separate statements or notes to the financial statements when presenting both financial position and results of operations for one or more years. A question has arisen as to whether, because of the language of APB Opinion No. 9, changes in stockholders' equity accounts other than retained earnings are required to be reported.

10. When both financial position and results of operations are presented, disclosure of changes in the separate accounts comprising stockholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

11-15. [These paragraphs have been deleted See Status page.]

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[2][This footnote has been deleted. See Status page.]

Messrs. Armstrong and Layton concur with the temporary suspension of paragraphs 8 and 9 of Opinion No. 10, but do not agree with paragraph 14 and the disclosures required in the last three sentences of paragraph 15 above, since they believe that retroactive application of any new Opinion on the subject should not be required. They therefore object to the disclosures implying the possibility of retroactive application and further believe that such disclosures will create unnecessary uncertainties in the minds of readers of financial statements.

Mr. Halvorson concurs with paragraphs 11, 12, and 13 suspending the effectiveness of paragraphs 8 and 9 of APB Opinion No. 10, but he believes the suspension should be unconditional and therefore disagrees with paragraph 14 implying retroactive application of a new Opinion and with paragraph 15 attaching conditions to the suspension.

Mr. Luper dissents from the section of this Opinion entitled "Convertible Debt and Debt Issued with Stock Warrants" (paragraphs 11-15) because he does not agree with the conclusions in paragraphs 14 and 15. He believes that the statement in paragraph 14 that the Board may decide to require retroactive treatment for a new Opinion to be issued in the future establishes an unsound precedent. In his view the Board should not require that its Opinions be accorded retroactive treatment because such action introduces a condition of instability in financial reporting standards—a condition that, from a business viewpoint, is inimical to both those who prepare and those who use financial statements.

Mr. Luper regards the further requirement in paragraph 15 that issuers of financial statements shall state, under the conditions given, that their reported net income and earnings per share may be revised subsequently because of possible conclusions to be included in an Opinion not yet formulated by the Board is an unreasonable intrusion on the responsibilities of such issuers.

AMORTIZATION OF DEBT DISCOUNT AND EXPENSE OR PREMIUM

16. Questions have been raised as to the appropriateness of the "interest" method of periodic amortization of discount and expense or premium on debt (i.e., the difference between the net proceeds,

after expense, received upon issuance of debt and the amount repayable at its maturity) over its term. The objective of the interest method is to arrive at a periodic interest cost (including amortization) which will represent a level effective rate on the sum of the face amount of the debt and (plus or minus) the unamortized premium or discount and expense at the beginning of each period. The difference between the periodic interest cost so calculated and the nominal interest on the outstanding amount of the debt is the amount of periodic amortization.

17. In the Board's opinion, the interest method of amortization is theoretically sound and an acceptable method.

EFFECTIVE DATE OF THIS OPINION

18. As indicated in paragraph 11, the effectiveness of paragraphs 8 and 9 of Opinion No. 10 is temporarily suspended retroactively to their effective date. In other respects, this Opinion shall be effective for fiscal periods beginning after December 31, 1967. However, the Board encourages earlier application of the provisions of this Opinion.

All portions of the Opinion entitled "Omnibus Opinion—1967" were adopted by the twenty members of the Board, except as follows: Messrs. Armstrong and Layton assented with qualification as to paragraph 14 and the last three sentences of paragraph 15 and Mr. Halvorson assented with qualification as to paragraphs 14 and 15. Mr. Luper dissented as to paragraphs 11-15.

APB 12 NOTES

Opinions present the considered opinion of at least two-thirds of the members of the Accounting Principles Board, reached on a formal vote after examination of the subject matter.

Except as indicated in the succeeding paragraph, the authority of the Opinions rests upon their general acceptability. While it is recognized that general rules may be subject to exception, the burden of justifying departures from Board Opinions must be assumed by those who adopt other practices.

Action of Council of the Institute (Special Bulletin, Disclosure of Departures From Opinions of Accounting Principles Board, *October 1964) provides that:*

a. *"Generally accepted accounting principles" are those principles which have substantial authoritative support.*
b. *Opinions of the Accounting Principles Board constitute "substantial authoritative support."*
c. *"Substantial authoritative support" can exist for accounting principles that differ from Opinions of the Accounting Principles Board.*

The Council action also requires that departures from Board Opinions be disclosed in footnotes to the financial statements or in independent auditors' reports when the effect of the departure on the financial statement is material.

Unless otherwise stated, Opinions of the Board are not intended to be retroactive. They are not intended to be applicable to immaterial items.

[i] APB12, Footnote 1—The amounts to be accrued periodically shall result in an accrued amount at the full eligibility date (as defined in Statement 106) equal to the then present value of all of the future benefits expected to be paid. Paragraphs 413–416 of Statement 106 illustrate application of this paragraph.

[ii] APB12, Footnote 1--The amounts to be accrued periodically shall result in an accrued amount at the full eligibility date (as defined in Statement 106) equal to the then present value of all of the future benefits expected to be paid. Paragraphs 413-416 of Statement 106 illustrate application of this paragraph.

[iii] APB12, Footnote 1--The amounts to be accrued periodically should result in an accrued amount at the end of the term of active employment which is not less than the then present value of the estimated payments to be made.