

# APB 22: Disclosure of Accounting Policies

## APB 22 STATUS

Issued: April 1972

Effective Date: For fiscal years beginning after December 31, 1971

Affects: Amends APS 4, paragraphs 81 and 199

Affected by: Paragraphs 6 through 8, and 12 amended by FAS 95, paragraph 152(b)  
Paragraph 13 amended by FAS 2, paragraph 5; FAS 8, paragraph 4; and FAS 52,  
paragraph 3, footnote 1  
Paragraph 14 amended by FAS 154, paragraph C3  
Footnote 2 amended by FAS 111, paragraph 9(b)

Other Interpretive Pronouncements: AIN-APB 22, Interpretation No. 1  
(Superseded by FAS 111)  
FTB 81-1 (Superseded by FAS 80)  
FTB 82-1

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: No EITF Issues

Interpreted by: No EITF Issues

Related Issues: EITF Issues No. 00-10, 01-14, and 06-3

## INTRODUCTION

1. In recent years, a number of business enterprises have adopted the practice of including in their annual reports to shareholders a separate summary of the significant accounting policies followed in preparing the financial statements. This disclosure has been favorably received by users of financial statements and endorsed by organizations representing corporate business.

2. Practice by those entities that present summaries of accounting policies has varied considerably. Some present the summary of accounting policies as an integral part of the financial statements; others present it as supplementary information. In addition, both the nature and the degree of disclosure vary, and related guidelines are lacking.

3. Disclosure of accounting policies by those entities that do not present separate summaries has varied also. Some have included, in footnotes relating to particular items in the financial statements, descriptions of all significant accounting policies. Most entities, however, have disclosed no information as to certain significant accounting policies.

4. In view of the increasing recognition of the usefulness of disclosure of accounting policies, the Accounting Principles Board has considered whether this disclosure should be required in financial statements and whether guides should be established for the form and scope of disclosure. This Opinion sets forth the Board's conclusions.

## DISCUSSION

5. Financial statements are the end product of the financial accounting process, which is governed by generally accepted accounting principles on three levels: pervasive principles, broad operating principles, and detailed principles. <sup>i</sup>1 Applying generally accepted accounting principles requires that judgment be exercised as to the relative appropriateness of acceptable alternative principles and methods of application in specific circumstances of diverse and complex economic activities. Although the combined efforts of professional accounting bodies, of business, and of the regulatory agencies have significantly reduced the number of acceptable alternatives and are expected to reduce the number further, judgment must nevertheless be exercised in applying principles at all three levels.

6. The *accounting policies* of a reporting entity are the specific accounting principles and the methods of applying those principles that are judged by the management of the entity to be the most appropriate in the circumstances to present fairly financial position, cash flows, and results of operations in accordance with generally accepted accounting principles and that, accordingly, have been adopted for preparing the financial statements.

7. The accounting policies adopted by a reporting entity can affect significantly the presentation of its financial position, cash flows, and results of operations. Accordingly, the usefulness of financial statements for purposes of making economic decisions about the reporting entity depends significantly upon the user's understanding of the accounting policies followed by the entity.

## OPINION

### Applicability

8. The Board concludes that information about the accounting policies adopted by a reporting entity is essential for financial statement users. When financial statements are issued purporting to present fairly financial position, cash flows, and results of operations in accordance with generally accepted accounting principles, a description of all significant accounting policies of the reporting entity should be included as an integral part of the financial statements. In circumstances where it may be appropriate to issue one or more of the basic financial statements without the others, purporting to present fairly the information given in accordance with generally accepted accounting principles, statements so presented should also include disclosure of the pertinent accounting policies.

9. The Board also concludes that information about the accounting policies adopted and followed by not-for-profit entities should be presented as an integral part of their financial statements.

10. The provisions of paragraphs 8 and 9 above are not intended to apply to unaudited financial statements issued as of a date between annual reporting dates (e.g., each quarter) if the reporting entity has not changed its accounting policies since the end of its preceding fiscal year. <sup>ii</sup>2

11. This Opinion does not supersede any prior pronouncement of the American Institute of Certified Public Accountants relating to disclosure requirements.

### Content

12. Disclosure of accounting policies should identify and describe the accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations. In general, the disclosure should encompass important judgments as to appropriateness of principles relating to recognition of revenue and allocation of asset costs to current and future periods; in particular, it should encompass those accounting principles and methods that involve any of the following:

- a. A selection from existing acceptable alternatives;
- b. Principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry;
- c. Unusual or innovative applications of generally accepted accounting principles (and, as applicable, of principles and methods peculiar to the industry in which the reporting entity operates).

13. Examples of disclosures by a business entity commonly required with respect to accounting policies would include, among others, those relating to basis of consolidation, depreciation methods, amortization of intangibles, inventory pricing, accounting for recognition of profit on long-term construction-type contracts, and recognition of revenue from franchising and leasing operations. This list of examples is not all-inclusive.

14. Financial statement disclosure of accounting policies should not duplicate details (e.g., composition of inventories or of plant assets) presented elsewhere as part of the financial statements. In some cases, the disclosure of accounting policies should refer to related details presented elsewhere as part of the financial statements; for example, changes in accounting policies during the period should be described with cross-reference to the disclosure required by FASB Statement No. 154, *Accounting Changes and Error Corrections*.

#### **Format**

15. The Board recognizes the need for flexibility in matters of format (including the location) of disclosure of accounting policies provided that the reporting entity identifies and describes its significant accounting policies as an integral part of its financial statements in accordance with the foregoing guides in this Opinion. The Board believes that the disclosure is particularly useful if given in a separate *Summary of Significant Accounting Policies* preceding the notes to financial statements or as the initial note. Accordingly, it expresses its preference for that format under the same or a similar title.

## **EFFECTIVE DATE**

16. This Opinion shall be effective for fiscal years beginning after December 31, 1971. The Board, however, encourages earlier application of the provisions of this Opinion.

*The Opinion entitled "Disclosure of Accounting Policies" was adopted unanimously by the eighteen members of the Board, of whom four, Messrs. Broeker, Burger, Norr and Watt assented with qualification.*

Messrs. Broeker, Burger and Watt assent to the issuance of this Opinion because they believe it should enhance the usefulness of financial statements to investors and other users. However, they qualify their assent because paragraph 10 does not require accounting policies to be disclosed in unaudited interim financial statements which are intended to present fairly financial position, changes in financial position, and results of operations in accordance with generally accepted accounting principles. They agree that the provisions of paragraphs 8 and 9 should not apply to incomplete or condensed financial data published periodically when no accounting policy has been changed. To say that there is a different degree of adequacy of disclosure as between unaudited interim financial statements that purport to present fairly financial position, changes in financial position, and results of operations in accordance with generally accepted accounting principles and audited interim financial statements that purport to present the same thing is an inconsistent and untenable position. Furthermore, they believe that it is entirely inconsistent for paragraph 10 to permit the omission of some disclosures from such unaudited interim financial statements while paragraph 11 calls for the inclusion of other disclosures required by prior pronouncements of the American Institute of Certified Public Accountants.

Messrs. Broeker, Burger and Watt, while not agreeing with paragraph 10, also believe that it should have made clear that, if the reporting entity has changed its accounting policies since the end of its preceding fiscal year, it should have to describe only those that were changed.

Mr. Norr assents to the issuance of this Opinion but feels that paragraph 12 does not go far enough. He believes that mere disclosure of accounting policies does not meet the needs of readers. Where alternatives exist he believes that standards must be created. Then deviations from standard must be indicated in order to measure the dollar impact on net income. In the absence of such alternatively derived net income figures he believes the user is not well served.

## **APB 22 NOTES**

*Opinions of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board, which is the senior technical body of the Institute authorized to issue pronouncements on accounting principles.*

*Board Opinions are considered appropriate in all circumstances covered but need not be applied to immaterial items.*

*Covering all possible conditions and circumstances in an Opinion of the Accounting Principles Board is usually impracticable. The substance of transactions and the principles, guides, rules, and criteria described in Opinions should control the accounting for transactions not expressly covered.*

*Unless otherwise stated, Opinions of the Board are not intended to be retroactive.*

*Council of the Institute has resolved that Institute members should disclose departures from Board Opinions in their reports as independent auditors when the effect of the departures on the financial statements is material or see to it that such departures are disclosed in notes to the financial statements and, where practicable, should disclose their effects on the financial statements (Special Bulletin, Disclosure of Departures from Opinions of the Accounting Principles Board, October 1964). Members of the Institute must assume the burden of justifying any such departures.*

**Accounting Principles Board (1972)**

Philip L. Defliese,  
*Chairman*

Donald J. Bevis

Albert J. Bows

Milton M. Broeker

Leo E. Burger

Joseph P. Cummings

Robert L. Ferst

Oscar Gellein

Newman T. Halvorson

Robert Hampton, III

Donald J. Hayes

Charles B. Hellerson

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<sup>i</sup>APB22, Footnote 1—See APB Statement No. 4, *Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises*, Chapters 6, 7, and 8. This Opinion amends Statement No. 4 insofar as it relates to disclosure of accounting policies.

<sup>ii</sup>APB22, Footnote 2—The Board recognizes also that it may be appropriate to omit disclosure of accounting policies in some other circumstances; for example, from financial statements restricted to internal use only and from certain special reports in which incomplete or no financial presentations are made.