



Financial Accounting Standards Board

# ORIGINAL PRONOUNCEMENTS

AS AMENDED

## Statement of Financial Accounting Standards No. 111

Rescission of FASB Statement No. 32 and  
Technical Corrections

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# Statement of Financial Accounting Standards No. 111 Rescission of FASB Statement No. 32 and Technical Corrections

## STATUS

Issued: November 1992

Effective Date: November 30, 1992

Affects: Amends ARB 43, Chapter 1A, paragraph 1; Chapter 3A, paragraph 6(g); Chapter 7A, paragraph 10;  
Chapter 10A, paragraph 19; and Chapter 11B, paragraph 9  
Deletes ARB 43, Chapter 11B, footnotes 3 and 4  
Deletes ARB 51, footnote 1  
Amends APB 6, paragraph 16  
Amends APB 9, paragraph 17  
Amends APB 10, paragraph 11(b)  
Replaces APB 12, footnote 1  
Amends APB 15, paragraph 5 and Exhibit B of Appendix C  
Amends APB 20, paragraphs 4, 7, 9, and 16 and footnote 4  
Deletes APB 20, footnotes 2 and 5  
Amends APB 22, footnote 2  
Supersedes AIN-ARB 51, Interpretation No. 1  
Deletes AIN-APB 4, Interpretation No. 5  
Supersedes AIN-APB 7, Interpretation No. 1  
Supersedes AIN-APB 8, Interpretations No. 1 through 28  
Deletes AIN-APB 9, Interpretation No. 2  
Amends AIN-APB 15, Part I and Interpretations No. 2, 26, 30, 33, 56, and 92  
Deletes AIN-APB 15, Interpretations No. 10 and 38 and footnote 22  
Amends AIN-APB 16, Interpretation No. 30  
Amends AIN-APB 18, Interpretation No. 2  
Supersedes AIN-APB 22, Interpretation No. 1  
Amends AIN-APB 26, Interpretation No. 1  
Amends FAS 5, paragraph 18  
Amends FAS 14, paragraph 27(c)  
Deletes FAS 15, footnote 20  
Amends FAS 15, footnote 26  
Deletes FAS 25, paragraphs 6 and 8  
Supersedes FAS 32  
Supersedes FAS 55  
Supersedes FAS 56  
Amends FAS 67, paragraph 2(b) and footnote 10  
Amends FAS 76, paragraph 7  
Supersedes FAS 83  
Amends FAS 105, paragraph 14(c)  
Deletes FIN 18, footnote 5  
Amends FIN 20, paragraph 5  
Amends FTB 79-8, paragraphs 5 and 6  
Amends FTB 80-1, paragraphs 1 through 4  
Supersedes FTB 81-3  
Deletes FTB 85-2, footnote 9

Affected by: No other pronouncements

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: No EITF Issues

Interpreted by: No EITF Issues

Related Issue: EITF Topic No. D-1

## SUMMARY

This Statement rescinds FASB Statement No. 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters*, and its related pronouncements. The guidance in Statement 32, which specifies that the specialized accounting principles and practices contained in AICPA Statements of Position and Guides are preferable for purposes of justifying a change in accounting principles as required by APB Opinion No. 20, *Accounting Changes*, is no longer needed with the issuance of the AICPA's Statement on Auditing Standards (SAS) No. 69, *The Meaning of "Present Fairly in Conformity With Generally Accepted Accounting Principles" in the Independent Auditor's Report*. In general, SAS 69 requires an entity to adopt the accounting principles in pronouncements whose effective date is after March 15, 1992. An entity initially applying an accounting principle after that date (including those making an accounting change) must follow the applicable hierarchy set forth in SAS 69. An entity following an established accounting principle that was effective as of March 15, 1992 need not change its accounting until a new pronouncement is issued. This Statement also amends other existing authoritative literature to make various technical corrections.

This Statement is effective November 30, 1992.

**Statement of Financial Accounting Standards No. 111**

**Rescission of FASB Statement No. 32 and Technical Corrections**

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**INTRODUCTION**

**Rescission of Statement 32**

1. FASB Statement No. 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters*, states that the specialized accounting principles contained in the AICPA Statements of Position (SOPs) and Guides on accounting and auditing matters listed in Appendix A of that Statement are preferable for the purpose of adopting a change in accounting principle under paragraphs 15 and 16 of APB Opinion No. 20, *Accounting Changes*.
2. The Board has amended that list twice with the issuance of FASB Statements No. 56, *Designation of AICPA Guide and Statement of Position (SOP) 81-1 on Contractor Accounting and SOP 81-2 concerning Hospital-Related Organizations as Preferable for Purposes of Applying APB Opinion 20* (issued February 1982), and No. 83, *Designation of AICPA Guides and Statement of Position on Accounting by Brokers and Dealers in Securities, by Employee Benefit Plans, and by Banks as Preferable for Purposes of Applying APB Opinion 20* (issued March 1985). Statements 56 and 83 added new AICPA audit and accounting Guides and SOPs to the Statement 32 list and eliminated those that had been superseded.
3. In January 1992, the AICPA Auditing Standards Board issued Statement on Auditing Standards

(SAS) No. 69, *The Meaning of “Present Fairly in Conformity With Generally Accepted Accounting Principles” in the Independent Auditor’s Report*. That Statement supersedes AU section 411 of the AICPA Professional Standards. SAS 69 revises the generally accepted accounting principles (GAAP) hierarchy by (a) adding a new category, (b) changing some of the sources of established accounting principles in two categories, and (c) designating which category is to be used when there is a conflict between categories. A summary of those categories is provided in paragraph 25.

4. The provisions of SAS 69 require that an affected entity must apply the provisions of pronouncements contained in categories (b)–(d) with an effective date after March 15, 1992. This will require a change in accounting principles by an entity not following such accounting. An entity initially applying an accounting principle after March 15, 1992 must follow the applicable hierarchy set forth in SAS 69. Special transition provisions apply to FASB Emerging Issues Task Force (EITF) consensus positions (refer to paragraph 18). An entity following an established accounting principle (in categories (b) and (c) under the previous GAAP hierarchy) that was effective as of March 15, 1992 need not change its accounting unless it chooses to make a change or unless a new pronouncement in categories (b)–(d) (under SAS 69) becomes effective after March 15, 1992. Since category (b) in SAS 69 contains the AICPA Guides and SOPs, the Board no longer needs to designate the

specialized accounting and reporting principles and practices in AICPA Guides and SOPs that are preferable for the purpose of adopting a change in accounting principle under Opinion 20. This Statement rescinds Statement 32 and related pronouncements.

### Technical Corrections

5. When the Board issues a pronouncement that contains amendments to prior pronouncements, the proposed amendments are reviewed by the Board and exposed for comment as part of the due process procedures. Over the years, the FASB staff and various constituents have identified instances where additional amendments should have been made explicit in certain pronouncements. Although, in general, those “effective” amendments have been appropriately indicated in the various editions of the FASB’s *Original Pronouncements* and *Current Text* publications, those effective amendments were not subjected to the Board’s review and due process procedures. This Statement identifies those effective amendments and establishes them as Board-approved amendments. In addition, this Statement amends existing authoritative literature (a) to correct references to AICPA guidance that has been revised or superseded since the issuance of that literature and (b) to extend certain provisions to reflect established practice.

## STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

### Rescission of Statement 32 and Related Pronouncements

6. This Statement rescinds the following pronouncements:
- FASB Statement No. 32, *Specialized Accounting and Reporting Principles and Practices in AICPA Statements of Position and Guides on Accounting and Auditing Matters*
  - FASB Statement No. 56, *Designation of AICPA Guide and Statement of Position (SOP) 81-1 on Contractor Accounting and SOP 81-2 concerning Hospital-Related Organizations as Preferable for Purposes of Applying APB Opinion 20*
  - FASB Statement No. 83, *Designation of AICPA Guides and Statement of Position on Accounting by Brokers and Dealers in Securities, by Employee Benefit Plans, and by Banks as Preferable for Purposes of Applying APB Opinion 20.*

### Amendments to Opinion 20

7. This Statement amends Opinion 20 as follows:
- The second and third sentences of paragraph 4 are replaced by the following:

Each Statement and Interpretation of the Financial Accounting Standards Board (FASB), Opinion of the Accounting Principles Board, and AICPA Accounting Research Bulletin specifies its effective date and the manner of reporting a change to conform with the conclusions of that pronouncement. Other pronouncements of the FASB or other designated bodies as described in categories (b)–(d) of AICPA Statement on Auditing Standards (SAS) No. 69, *The Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles” in the Independent Auditor’s Report*, may also prescribe the manner of reporting a change in accounting principle.

- Footnote 5 is deleted and the penultimate sentence of paragraph 16 is replaced by the following:

The issuance of a new pronouncement by the FASB or by other designated bodies as described in categories (a)–(d) of SAS 69 that creates a new accounting principle, interprets an existing principle, expresses a preference for an accounting principle, or rejects a specific principle *may require* an entity to adopt a change in accounting principle. The issuance of such a pronouncement is considered to constitute sufficient support for making a change in accounting principle provided that the hierarchy established by SAS 69 is followed.

### Technical Corrections

8. This Statement amends the following pronouncements to make technical corrections to existing authoritative literature:
- Accounting Research Bulletin No. 43, *Restatement and Revision of Accounting Research Bulletins.*
    - The following is added after the second sentence of paragraph 1 of Chapter 1A (effectively amended by APB Opinion No. 10,

*Omnibus Opinion—1966*, paragraph 12, which reaffirms that the installment method of recognizing revenue is generally not acceptable):

In the absence of the circumstances referred to above or other specific guidance, such as in FASB Statement No. 66, *Accounting for Sales of Real Estate*, the installment method is not acceptable.

- (2) In paragraph 6 of Chapter 3A, *and certain types of research and development costs* is deleted from the last sentence (effectively superseded by FASB Statement No. 2, *Accounting for Research and Development Costs*, paragraph 12, which requires that research and development costs be charged to expense when incurred).
  - (3) The following is added to the end of paragraph 10 of Chapter 7A (effectively amended by ARB No. 46, *Discontinuance of Dating Earned Surplus*, paragraph 2, which provides guidance as to when the dating of earned surplus should be discontinued):

The dating of earned surplus following a quasi reorganization would rarely, if ever, be of significance after a period of 10 years. There may be exceptional circumstances in which the discontinuance of the dating of earned surplus could be justified at the conclusion of a period less than 10 years.
  - (4) The last sentence of paragraph 19 of Chapter 10A is deleted (effectively superseded by FASB Statement No. 16, *Prior Period Adjustments*, paragraph 16(a), which amends the accounting for prior period adjustments).
  - (5) In paragraph 9 of Chapter 11B, everything following *income statement* in the second sentence through the end of that paragraph and footnotes 3 and 4 are deleted (effectively amended by Statement 16, paragraph 16(a), which amends the accounting for prior period adjustments).
- b. ARB No. 51, *Consolidated Financial Statements*. Footnote 1 is deleted (effectively superseded by APB Opinion No. 16, *Business Combinations*, paragraph 7, which supersedes ARB No. 48, *Business Combinations*—referenced in footnote 1).

- c. APB Opinion No. 6, *Status of Accounting Research Bulletins*. The last sentence of paragraph 16 is amended to refer to APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* (effectively amended by FASB Statement No. 94, *Consolidation of All Majority-Owned Subsidiaries*, paragraph 14, which supersedes paragraph 19 of ARB 51—referenced in paragraph 16).
- d. APB Opinion No. 9, *Reporting the Results of Operations*. In paragraph 17, *described below* is deleted from the end of the second sentence (effectively superseded by Statement 16, paragraph 16(a), which deletes paragraphs 23 and 24 of Opinion 9—referenced by paragraph 17).
- e. APB Opinion No. 10, *Omnibus Opinion—1966*. In paragraph 11(b), *as called for by paragraph 35 of APB Opinion No. 9*, is deleted (effectively amended by APB Opinion No. 15, *Earnings per Share*, paragraph 3, which supersedes paragraph 35 of Opinion 9).
- f. APB Opinion No. 12, *Omnibus Opinion—1967*. In paragraph 7, footnote 1 is replaced by the following (effectively superseded by FASB Statement No. 106, *Employers' Accounting for Post-retirement Benefits Other Than Pensions*, paragraph 13):

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.
- g. APB Opinion No. 15, *Earnings per Share*.
  - (1) In paragraph 5, *and as described in paragraph 12 of FASB Statement No. 21, Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises* is added at the end of the first sentence (effectively amended by Statement 21, paragraph 15, which amends the scope of Opinion 15).
  - (2) In Exhibit B of Appendix C, *bank prime rate* is replaced by *average Aa corporate bond yield as defined in FASB Statement No. 85, Yield Test for Determining whether a Convertible Security Is a Common Stock Equivalent* (effectively amended by Statement 85,

- paragraph 3, which amends the yield test for determining whether a convertible security is a common stock equivalent).
- (3) Also in Exhibit B, *cash* is deleted from the term *cash yield* (effectively superseded by Statement 85, paragraph 4, which deletes *cash* from the term *cash yield* in paragraph 35 of Opinion 15).
- h. APB Opinion No. 20, *Accounting Changes*. In paragraph 9, ; and a change in accounting for research and development expenditures, such as from recording as expense when incurred to deferring and amortizing the costs is deleted (effectively amended by Statement 2, paragraph 12, which requires that research and development costs be expensed when incurred).
- i. AICPA Accounting Interpretation 1, “Tax Allocation for DISCs,” of ARB 51 is deleted (effectively superseded by paragraph 3 of APB Opinion No. 23, *Accounting for Income Taxes—Special Areas*, which supersedes paragraph 16 of ARB 51, the basis for the Interpretation, and by footnote 2 of Opinion 23, which addresses DISCs).
- j. AICPA Accounting Interpretation 5, “Investment Credit Is Prior Period Adjustment,” of APB Opinion No. 4, *Accounting for the “Investment Credit,”* is deleted (effectively superseded by Statement 16, paragraph 16(a), which amends the accounting for prior period adjustments).
- k. AICPA Accounting Interpretation 1, “Accounting for Leases by Manufacturer or Dealer Lessors,” of APB Opinion No. 7, *Accounting for Leases in Financial Statements of Lessors*, is deleted (effectively superseded by APB Opinion No. 27, *Accounting for Lease Transactions by Manufacturer or Dealer Lessors*, and Statement 13, paragraph 2, which supersedes Opinions 7 and 27).
- l. AICPA Accounting Interpretations 1–28 of APB Opinion No. 8, *Accounting for the Cost of Pension Plans*, are deleted (effectively superseded by FASB Statement No. 87, *Employers’ Accounting for Pensions*, paragraph 9, which supersedes Opinion 8).
- m. AICPA Accounting Interpretation 2, “Revenue Ruling on LIFO Inventory of Subsidiary,” of Opinion 9 is deleted (effectively superseded by Opinion 20, paragraph 5(c), which supersedes paragraph 25 of Opinion 9, which is the basis for the Interpretation).
- n. AICPA Accounting Interpretations of Opinion 15.
- (1) In Part I and Interpretations 2, 26, 30, 33, and 92, the phrases *bank prime rate*, *bank prime interest rate*, and *the prime rate* are replaced with *average Aa corporate bond yield as defined in FASB Statement No. 85, Yield Test for Determining whether a Convertible Security Is a Common Stock Equivalent* (effectively amended by Statement 85, paragraph 3, which amends the yield test for determining whether a convertible security is a common stock equivalent).
- (2) Interpretation 10, “Closely Held Corporations,” of Opinion 15 is deleted (effectively superseded by FASB Statement No. 21, *Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises*, paragraph 12, which eliminates the requirements of Opinion 15 for nonpublic enterprises).
- (3) Interpretation 38, “Prime Rate Used in Yield Test,” of Opinion 15 is deleted (effectively superseded by Statement 85, paragraph 3, which deletes the use of the bank prime interest rate in yield tests).
- o. AICPA Accounting Interpretation 30, “Representations in a Pooling,” of Opinion 16. In the second sentence of the sixth paragraph, *paragraph 2 of ARB No. 50* is replaced by *paragraph 3(b) of FASB Statement No. 5, Accounting for Contingencies* (effectively amended by Statement 5, paragraph 7, which supersedes ARB No. 50, *Contingencies*).
- p. AICPA Accounting Interpretation 2, “Investments in Partnerships and Ventures,” of Opinion 18. In the fourth paragraph, *contrary to the provisions of paragraph 19-j (income taxes on undistributed earnings of subsidiaries)*, is deleted (effectively amended by Opinion 23, paragraph 3, which supersedes paragraph 19-j of Opinion 18).
- q. AICPA Accounting Interpretation 1, “Disclosure of ‘Leveraged Lease’ Transactions by Lessors,” of APB Opinion No. 22, *Disclosure of Accounting Policies*, is deleted (effectively superseded by

- paragraphs 41–47 of Statement 13, which specify the accounting and disclosure requirements for lessors in leveraged lease transactions).
- r. AICPA Accounting Interpretation 1, “Debt Tendered to Exercise Warrants,” of APB Opinion No. 26, *Early Extinguishment of Debt*.
- (1) In the first paragraph, *before its scheduled maturity* is deleted (effectively amended by FASB Statement No. 76, *Extinguishment of Debt*, paragraph 9, which deletes this phrase from Opinion 26).
- (2) In the second paragraph, “*pursuant to the existing conversion privileges of the holder*” (see paragraph 2 of the Opinion) is deleted (effectively amended by Statement 76, paragraph 7, which supersedes paragraph 2 of Opinion 26).
- s. FASB Statement No. 5, *Accounting for Contingencies*. The second sentence in paragraph 18 is replaced by the following (effectively amended because the documents referenced have been superseded):
- Subsequent Opinions issued by the Accounting Principles Board and Statements issued by the Financial Accounting Standards Board established more explicit disclosure requirements for a number of those items.
- t. FASB Statement No. 14, *Financial Reporting for Segments of a Business Enterprise*. In paragraph 27(c), *unconsolidated subsidiaries and other* is deleted (effectively amended by Statement 94, paragraph 15, which deletes this phrase from Opinion 18).
- u. FASB Statement No. 25, *Suspension of Certain Accounting Requirements for Oil and Gas Producing Companies*. Paragraphs 6 and 8 are deleted (effectively superseded by FASB Statement No. 69, *Disclosures about Oil and Gas Producing Activities*, paragraph 5, which deletes paragraphs in FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, relating to disclosure requirements).
- v. FASB Statement No. 55, *Determining whether a Convertible Security Is a Common Stock Equivalent*, is superseded (effectively superseded by
- Statement 85, paragraph 3, which amends the yield test for determining whether a convertible security is a common stock equivalent).
- w. FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*.
- (1) In paragraph 2(b), the reference to FASB Statement No. 17, *Accounting for Leases—Initial Direct Costs*, and the last sentence are deleted and replaced by the following:
- FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases*. The accounting for initial direct costs is prescribed in FASB Statement No. 13, *Accounting for Leases*, as amended by Statement 91 and FASB Statement No. 98, *Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases*.
- (Paragraph 2(b) is effectively amended by Statement 91, paragraphs 24 and 25, which supersede Statement 17, amend the definition of initial direct costs, and amend the accounting for initial direct costs of direct financing leases, and by Statement 98, subparagraphs 22(h) and (i), which reflect the intent of the amendment made by Statement 91.)
- (2) In footnote 10, the reference to Statement 17 is replaced by a reference to Statement 91 and *as amended by Statements 91 and 98* is added to the end of the second sentence.
- x. FASB Statement No. 76, *Extinguishment of Debt*. The following is added to the end of paragraph 7 (effectively amended by FASB Statement No. 84, *Induced Conversions of Convertible Debt*, paragraph 5, which amends paragraph 2 of Opinion 26—referenced in paragraph 7):
- Also, this Opinion does not apply to a conversion of convertible debt when conversion privileges provided in the terms of the debt at issuance are changed (including changes that involve payment of consideration) to induce

conversion of the debt to equity securities in accordance with the conditions of paragraph 2 of FASB Statement No. 84, *Induced Conversions of Convertible Debt*.

- y. FASB Statement No. 105, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*. In paragraph 14(c), *No. 81, Disclosure of Postretirement Health Care and Life Insurance Benefits* is replaced by *No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions* (effectively amended by Statement 106, paragraph 12, which supersedes Statement 81).
- z. FASB Interpretation No. 18, *Accounting for Income Taxes in Interim Periods*. Footnote 5 is deleted (effectively superseded by FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, paragraph 28).
- aa. FASB Technical Bulletin No. 79-8, *Applicability of FASB Statements 21 and 33 to Certain Brokers and Dealers in Securities*. In paragraphs 5 and 6, *statement of changes in financial position* is replaced by *statement of cash flows* (effectively amended by FASB Statement No. 95, *Statement of Cash Flows*, paragraph 152, which requires this change in other pronouncements).
- bb. FASB Technical Bulletin No. 80-1, *Early Extinguishment of Debt through Exchange for Common or Preferred Stock*.
- (1) In paragraphs 1–4, *early* is deleted (effectively amended by Statement 76, paragraph 9, which requires this change in Opinion 26).
  - (2) In the last sentence of paragraph 2, *before the scheduled maturity of the debt* and *early* are deleted (effectively amended by Statement 76, paragraph 8, which replaces the concept of early extinguishment).
  - (3) In the last sentence of paragraph 3, *as amended by FASB Statements No. 76, Extinguishment of Debt, and No. 84, Induced Conversions of Convertible Debt*, is added after *Opinion 26* (effectively amended by Statement 76, paragraph 7, and Statement 84, paragraph 5, which amend the applicability of Opinion 26).
- (4) In paragraph 4, *a conversion by the holder pursuant to conversion privileges contained in the original debt issue* is replaced by the following (effectively amended by Statement 76, paragraph 7, and Statement 84, paragraph 5, which amend the applicability of Opinion 26):
- a conversion of debt to equity securities of the debtor (a) pursuant to conversion privileges provided in the terms of the debt at issuance or (b) when conversion privileges provided in the terms of the debt at issuance are changed (including changes that involve payment of consideration) to induce conversion of the debt to equity securities in accordance with the conditions of paragraph 2 of Statement 84.
- cc. FASB Technical Bulletin No. 81-3, *Multemployer Pension Plan Amendments Act of 1980*. This Technical Bulletin is superseded (effectively superseded by Statement 87, paragraph 9, which supersedes Opinion 8).
- dd. FASB Technical Bulletin No. 85-2, *Accounting for Collateralized Mortgage Obligations (CMOs)*. Footnote 9 is deleted (effectively superseded by Statement 94, paragraph 13, which amends ARB 51 to require consolidation of all majority-owned subsidiaries).
9. This Statement amends the following pronouncements to delete or amend references to AICPA pronouncements that have been revised or superseded:
- a. APB Opinion No. 20, *Accounting Changes*.
    - (1) In paragraph 7, the quotation marks in the second sentence and footnote 2 are deleted.
    - (2) In footnote 4, *Statement on Auditing Procedure No. 41, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report* is replaced by *Section 561 of Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures*.
  - b. APB Opinion No. 22, *Disclosure of Accounting Policies*. In footnote 2, (*see Statement on Auditing Procedure No. 38, paragraphs 5 and 6*) and (*see Statement on Auditing Procedure No. 33, Chapter 13, paragraphs 9 and 10*) are deleted.

- c. AICPA Accounting Interpretation 56, "Fair Value Used If No Market Price," of Opinion 15. In the fourth paragraph, *Audits of Personal Financial Statements (an AICPA Industry Audit Guide published by the American Institute of CPAs in 1968)* is replaced by *Personal Financial Statements Guide (an Audit and Accounting Guide published by the American Institute of CPAs)*.
- d. FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*.

(1) Footnote 20 is deleted (effectively superseded for finance companies by the AICPA Audit and Accounting Guide, *Audits of Finance Companies (Including Independent and Captive Financing Activities of Other Companies)*, and for other entities by Statement 91).

(2) The last sentence in footnote 26 is deleted.

10. FASB Interpretation No. 20, *Reporting Accounting Changes under AICPA Statements of Position*, is amended to reflect established practice that has extended the provisions of Interpretation 20 to include AICPA Practice Bulletins, FASB Technical Bulletins, and EITF consensuses.

- a. In the first sentence of paragraph 5, *or practice bulletin, an FASB technical bulletin, or a consensus of the FASB Emerging Issues Task Force (EITF)* is added after *statement of position* and at the end of the sentence *statement* is replaced by *pronouncement*.
- b. The second sentence is replaced by the following:

If the pronouncement does not specify the manner of reporting a change in accounting principle to conform with its recommendations, an enterprise making a change in accounting principle to conform with the recommendations of the pronouncement shall report the change as specified by Opinion 20, except that EITF consensuses may be applied prospectively to future transactions unless otherwise stated.

The paragraph will then read as follows:

For purposes of applying *APB Opinion No. 20*, an enterprise making a change in accounting principle to conform with the recommendations of an AICPA statement of position or practice bulletin, an FASB technical bulletin, or a consensus of the FASB Emerging Issues Task Force (EITF) shall report the change as specified in the pronouncement. If the pronouncement does not specify the manner of reporting a change in accounting principle to conform with its recommendations, an enterprise making a change in accounting principle to conform with the recommendations of the pronouncement shall report the change as specified by Opinion 20, except that EITF consensuses may be applied prospectively to future transactions unless otherwise stated.

**Effective Date**

- 11. This Statement is effective November 30, 1992.

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

Dennis R. Beresford,  
Chairman  
Joseph V. Anania

Victor H. Brown  
James J. Leisenring  
Robert H. Northcutt

A. Clarence Sampson  
Robert J. Swieringa

## Appendix

### BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

#### Rescission of Statement 32

12. In 1979, the Board decided to exercise responsibility for all specialized accounting and reporting principles and practices in AICPA SOPs and Guides on accounting and auditing matters by extracting the specialized principles and practices from those documents and, after appropriate due process, issuing them as FASB Statements. That decision, made after extensive public comment, responded to a statement by the Securities and Exchange Commission in its 1978 report to Congress on its oversight of the accounting profession that “in the long run, the FASB should develop a mechanism for dealing . . . with accounting matters related to particular industries that are now covered by SOPs.”

13. To clarify any uncertainty about the ongoing status of those specialized principles and practices and alleviate concern that those accounting principles would not be followed pending release of final FASB Statements, the Board in September 1979 issued Statement 32. Statement 32 designated the specialized<sup>1</sup> accounting and reporting principles in AICPA Guides and SOPs as preferable for purposes of justifying a change in accounting principles as required by Opinion 20.

14. Under the GAAP hierarchy that existed at the time Statement 32 was issued, as established by the AICPA in July 1975 in Statement on Auditing Standards No. 5, *The Meaning of “Present Fairly in Conformity With Generally Accepted Accounting Principles” in the Independent Auditor’s Report*,<sup>2</sup> AICPA Guides, Interpretations, and SOPs together with FASB Technical Bulletins and widely recognized industry practice were considered secondary sources of established accounting principles—categories (b) and (c). If the accounting treatment of a transaction or event was not specified by a pronouncement covered by Rule 203 of the AICPA *Code of Professional Con-*

*duct*,<sup>3</sup> an established principle from any of those secondary sources could be used for financial reporting as long as it fairly presented the substance of the transaction.

15. Statement 32 did not require entities to change their specialized accounting and reporting practices to those contained in the AICPA Guides and SOPs. Statement 32 did, however, provide preferability status to the AICPA Guides and SOPs for the purpose of applying Opinion 20 so an entity electing to change its accounting treatment did not have to justify changing to the accounting specified by an AICPA Guide or SOP and an entity applying that accounting could not adopt a change to something less preferable. Likewise, an entity proposing a change to something other than a specialized accounting principle contained in an AICPA Guide or SOP had to justify that change.

16. Statement 32 lists the AICPA Guides and SOPs that contain specialized accounting and reporting principles considered preferable by the Board for the purpose of applying Opinion 20. The Board has amended Statement 32 twice, with the issuance of Statements 56 and 83, to add new audit and accounting Guides and SOPs issued by the AICPA and to delete those that have been superseded. The Board last amended Statement 32 in March 1985 (with the issuance of Statement 83) and has postponed subsequent amendments pending completion by the AICPA of its reexamination of the GAAP hierarchy. That reexamination resulted in SAS 69, issued in January 1992, which revises the GAAP hierarchy.

17. The revised GAAP hierarchy under SAS 69 (as summarized in paragraph 25) clearly indicates the accounting treatment required for a specific event or transaction when that event or transaction is not covered by Rule 203 guidance. SAS 69, paragraph 7, states:

If the accounting treatment of a transaction or event is not specified by a pronouncement covered by rule 203, the auditor should consider whether the accounting treatment is

<sup>1</sup>The term *specialized* was used to refer to those current accounting and reporting principles and practices in existing AICPA Guides and SOPs that were neither superseded by nor contained in FASB Statements, FASB Interpretations, APB Opinions, and AICPA Accounting Research Bulletins.

<sup>2</sup>SAS 5 is codified in *AICPA Professional Standards*, Volume I, in AU section 411 and was superseded in January 1992 by SAS 69.

<sup>3</sup>Pronouncements covered by Rule 203—category (a)—of the AICPA *Code of Professional Conduct* include FASB Statements, FASB Interpretations, APB Opinions, and AICPA Accounting Research Bulletins.

specified by another source of established accounting principles. If an established accounting principle from one or more sources in category (b), (c), or (d) is relevant to the circumstances, the auditor should be prepared to justify a conclusion that another treatment is generally accepted. If there is a conflict between accounting principles relevant to the circumstances from one or more sources in category (b), (c), or (d), the auditor should follow the treatment specified by the source in the higher category—for example, follow category (b) treatment over category (c)—or be prepared to justify a conclusion that a treatment specified by a source in the lower category better presents the substance of the transaction in the circumstances.

18. SAS 69 requires an entity to adopt a new pronouncement in categories (b)–(d) (as summarized in paragraph 25) that becomes effective after March 15, 1992. An entity following an established accounting principle (in categories (b) and (c) under the previous GAAP hierarchy) as of March 15, 1992 need not change its accounting treatment unless it chooses to make a change or unless a new pronouncement becomes effective in categories (b)–(d) (under SAS 69) after March 15, 1992. The transition provisions of SAS 69 state that an entity initially applying an accounting principle or making a change in accounting principle after March 15, 1992 must follow the applicable hierarchy as set forth in categories (b)–(d) except when initially applying FASB Emerging Issues Task Force consensus positions issued before March 16, 1992. Those consensus “become effective in the hierarchy for initial application of an accounting principle after March 15, 1993.”

19. With the issuance of SAS 69 the Board believes that there is no longer any uncertainty regarding the ongoing status of the specialized accounting and reporting principles and practices in AICPA Guides and SOPs. Consequently, the Board decided that the guidance provided by Statement 32 and related pronouncements is no longer needed and that those Statements should be rescinded.

### **Technical Corrections**

20. At the time a pronouncement is developed by the Board, part of the process requires that a determination be made of the effect this new guidance will have on existing authoritative accounting pronouncements. If there is an effect, then the new

pronouncement should amend or supersede the existing authoritative literature in detail so that there is (a) no doubt about what the amendment changes and (b) no conflict between the requirements of prior pronouncements and the requirements of the new pronouncement.

21. In the past, certain detailed amendments that could have been explicitly made to the authoritative literature were omitted. Those omissions occurred for various reasons. For example, because of a difference in style some pronouncements made general rather than specific amendments to prior pronouncements and some needed technical amendments were overlooked when the new pronouncement was prepared.

22. As those omissions were discovered by the FASB staff or members of the accounting profession, corrections were made to the various editions of the FASB’s *Original Pronouncements* and *Current Text* publications through effective amendments. However, those effective technical amendments have not been subjected to the Board’s usual due process procedures. With the decision to issue a Statement to rescind Statement 32, the Board also decided to take this opportunity to identify those effective amendments and issue them as Board-approved amendments.

23. The Board considered what parts of previously issued pronouncements to amend and decided that only the official guidance sections should be amended. The Board believes that the introduction, background information, and basis for conclusions paragraphs provide historical information that should not be amended or superseded unless the entire pronouncement is superseded. Those paragraphs are considered historical because they document the circumstances surrounding the development of a pronouncement. For example, they record (a) the reasons why the accounting requirements were considered to be necessary at that time, (b) what alternative guidance was considered, and (c) what the public comments were regarding the proposed requirements and how those comments were resolved.

24. In addition to the accounting guidance and historical paragraphs (described above), a pronouncement sometimes contains other paragraphs or appendixes. Those paragraphs or appendixes are ones that (a) state the scope of the pronouncement, (b) indicate substantive amendments to other existing pronouncements, (c) present examples or illustrations of application of the requirements of the pronouncement, and

(d) present a glossary of the terms used in the pronouncement. The Board discussed the content of those various paragraphs and appendixes and decided that that material is part of the accounting guidance of the pronouncement and should be amended if the pronouncement is amended by a subsequent pronouncement. The Board further decided that when a pronouncement is superseded, the amendments made by that superseded pronouncement remain in effect unless they are explicitly amended.

### Summary of GAAP Hierarchy under SAS 69

25. The chart below summarizes the GAAP hierarchy for financial statements of nongovernmental entities<sup>4</sup> under SAS 69.

#### Established Accounting Principles

*Category (a)*—FASB Statements and Interpretations, APB Opinions, and AICPA Accounting Research Bulletins

*Category (b)*—FASB Technical Bulletins, cleared<sup>5</sup> AICPA Industry Audit and Accounting Guides, and cleared AICPA Statements of Position

*Category (c)*—Consensus positions of the FASB Emerging Issues Task Force and cleared AICPA AcSEC Practice Bulletins

*Category (d)*—AICPA Accounting Interpretations, FASB Implementation Guides (Q&As), and widely recognized and prevalent industry practices

#### Other Accounting Literature

Other accounting literature, including FASB concepts Statements; APB Statements; AICPA Issues Papers; International Accounting Standards Committee Statements; GASB Statements, Inter-

pretations, and Technical Bulletins; pronouncements of other professional associations or regulatory agencies; AICPA *Technical Practice Aids*; and accounting textbooks, handbooks, and articles.

#### Comments on Exposure Draft

26. The Board issued an Exposure Draft of a proposed Statement, *Rescission of FASB Statement No. 32 and Technical Corrections*, for comment on June 30, 1992 and received 21 letters of comment. Most of the respondents agreed that Statement 32 and related pronouncements should be rescinded.

27. Several respondents said that the guidance in Opinion 20, paragraph 4, which addresses scope, and paragraph 16 and footnote 5, which address the support needed to make a change in accounting principle, were confusing in view of the guidance set forth in SAS 69. The Board agreed and has revised the amendment to Opinion 20 in paragraph 7 of this Statement to address this concern. In addition, the amendment to Interpretation 20 in paragraph 10 of this Statement was revised to clarify the application of EITF consensus. Unless a consensus specifies the manner of reporting a change in accounting principle, an enterprise making a change in accounting principle to conform with an EITF consensus may apply the consensus prospectively to future transactions or may apply the provisions of Opinion 20 to prior transactions.

28. A majority of respondents agreed with the technical corrections. Several respondents indicated support for the practice of making needed technical corrections when they are identified and then formally issuing those corrections as Board-approved amendments after due process. A few respondents had suggestions for additional amendments. Because those suggested amendments were considered to be more substantive than technical corrections or were to sections of pronouncements that are not normally amended, they are not included in this Statement.

<sup>4</sup>Rules and interpretive releases of the Securities and Exchange Commission (SEC) have an authority similar to category (a) pronouncements for SEC registrants. In addition, the SEC staff issues Staff Accounting Bulletins that represent practices followed by the staff in administering SEC disclosure requirements. Also, the Introduction to the FASB's *EITF Abstracts* states that the Securities and Exchange Commission's Chief Accountant has said that the SEC staff would challenge any accounting that differs from a consensus of the FASB Emerging Issues Task Force, because the consensus position represents the best thinking on areas for which there are no specific standards" (quoted from footnote 3 of SAS 69).

<sup>5</sup>As used in SAS 69, *cleared* means that the FASB has indicated that it does not object to the issuance of the proposed pronouncement. Footnote 4 of SAS 69 states that it should be assumed that such pronouncements have been cleared by the FASB unless the pronouncement indicates otherwise.