

EITF ABSTRACTS

Issue No. 84-9

Title: Deposit Float of Banks

Dates Discussed: July 24, 1984; October 18, 1984; November 15, 1984

References: FASB Concepts Statement No. 3, *Elements of Financial Statements of Business Enterprises*
APB Opinion No. 20, *Accounting Changes*
AICPA Notice to Practitioners, *Deposit Float*, dated September 24, 1984
AcSEC Practice Bulletin 1, *Purpose and Scope of AcSEC Practice Bulletins and Procedures for Their Issuance*
AICPA Audit and Accounting Guide, *Banks and Savings Institutions*

ISSUE

In the normal course of business a bank accepts customer deposits that include checks and similar items drawn on other banks or institutions. The receiving bank passes those checks on to the institution on which they are drawn and receives cash (or credit for cash) in return (referred to as the "collection process"). The term *deposit float* refers to the amount of deposited items that the bank has accepted but has not yet collected.

The universally followed practice until the end of 1983 had been for the receiving bank to reflect the deposited checks as liabilities to customers and as cash. In most cases, the bank pays interest from the date of deposit. Two financial institutions netted at least some portion of those amounts in their December 31, 1983 financial statements. One financial institution justified its accounting by asserting that it is merely an agent for the customer until the checks are collected and therefore has no liability or asset.

The issues are (1) whether banks should be permitted to change their accounting to recognize assets and liabilities relating to customer deposits of checks only after funds have been collected from the drawee bank and (2) whether a change in the method of accounting for customer deposits would constitute an "accounting change" under Opinion 20.

EITF DISCUSSION

On the first issue, the Task Force was unable to reach a consensus. Some Task Force members questioned whether the Task Force should address the issue because it had already been addressed by the AICPA's Accounting Standards Executive Committee (AcSEC) through a Notice to Practitioners, which stated that it is conceptually inappropriate to record deposits based on collections and that banks should continue to record deposit float as assets and liabilities.

The representatives of the FASB, Federal Deposit Insurance Corporation, Federal Reserve Board, and Office of the Comptroller of the Currency each stated that a change in accounting to record deposits based on collections is inappropriate.

The SEC Observer said that the SEC staff will object to the practice if the staff becomes aware of it and will view any change in this area as a change in accounting. The SEC staff does not believe any material change can be justified as being preferable in view of the Notice to Practitioners and established practice. The SEC Observer acknowledged that the SEC may not become aware of an immaterial change in this area because it may not be disclosed but that any disclosure of the practice would create a presumption of materiality. He said that he did not believe that banks would bother to make the change if it were not material.

On the second issue, the Task Force reached a consensus that a change in the accounting for deposit float would involve asset and liability recognition issues (not merely classification), would have to be addressed as an accounting change, and would be extremely difficult to justify as a change to a preferable method in light of the Notice to Practitioners and established practice.

STATUS

In November 1987, AcSEC issued Practice Bulletin 1. The guidance contained in the Notice to Practitioners was reprinted in Exhibit G of Practice Bulletin 1. The guidance contained in Exhibit

G of Practice Bulletin 1 was superseded by and incorporated into the AICPA Audit and Accounting Guide, *Banks and Savings Institutions*, issued in 1996.

No further EITF discussion is planned.