

# FASB Interpretation No. 12

Note: This Interpretation has been completely superseded

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## Accounting for Previously Established Allowance Accounts

an interpretation of FASB Statement No. 12

September 1976



**Financial Accounting Standards Board**

of the Financial Accounting Foundation

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## FIN 12: Accounting for Previously Established Allowance Accounts

### an interpretation of FASB Statement No. 12

#### INTRODUCTION

1. Paragraph 8 of *FASB Statement No. 12*, "Accounting for Certain Marketable Securities," specifies that the "carrying amount of a marketable equity securities portfolio shall be the lower of its aggregate cost or market value, determined at the balance sheet date." Paragraph 7(e) of *FASB Statement No. 12* defines "cost" of a marketable equity security as "original cost...unless a new cost basis has been assigned based on recognition of an impairment of value that was deemed other than temporary.... In such cases, the new cost basis shall be the cost...."

2. Prior to the issuance of *FASB Statement No. 12*, some enterprises that carried marketable equity securities at cost had reduced the carrying amount of individual marketable equity securities to market value through an allowance account with a corresponding amount included in the determination of net income. In some of those cases, a new cost basis was not established for individual securities and the allowance account was expected to increase or decrease depending on fluctuations in the market price of the marketable equity security because the decline in market value below cost was assessed to be temporary. The Board has been asked to clarify whether, in those cases, the original cost of the individual securities or the original cost reduced by an existing allowance account should be used in applying paragraphs 7(e) and 8 of *FASB Statement No. 12*.

#### INTERPRETATION

3. The original cost of individual marketable equity securities shall be used in applying paragraphs 7(e) and 8 of *FASB Statement No. 12* by an enterprise that carried marketable equity securities at cost and that (a) had reduced the carrying amount of individual marketable equity securities through an allowance account with a corresponding amount included in the determination of net income prior to the effective date of the Statement and (b) expected the

allowance account to increase or decrease in the future based on fluctuations in the market price of the security because the decline in market value below cost was assessed to be temporary. Any balance remaining in such an existing allowance account shall be eliminated and credited to income in the period in which this Interpretation is initially applied. The valuation allowance would then be determined in accordance with paragraph 8 of *FASB Statement No. 12*.

4. If, prior to the effective date of *FASB Statement No. 12*, a new cost basis had been assigned to a marketable equity security based on recognition of an impairment of value that was deemed other than temporary, the new cost basis shall be used in applying the provisions of *FASB Statement No. 12*.

## **EFFECTIVE DATE AND TRANSITION**

5. The provisions of this Interpretation shall be effective for financial statements for annual and interim periods ending after October 15, 1976. Earlier application is encouraged in financial statements for annual and interim periods ending before October 16, 1976 that have not been previously issued. This Interpretation shall not be applied retroactively for previously issued annual or interim financial statements.

*This Interpretation was adopted by the unanimous vote of the six members of the Financial Accounting Standards Board following submission to the members of the Financial Accounting Standards Advisory Council.*

Marshall S. Armstrong, *Chairman*  
Oscar S. Gellein  
Donald J. Kirk  
Arthur L. Litke  
Robert E. Mays  
Robert T. Sprouse