APB 28: Interim Financial Reporting

APB 28 STATUS

Issued: May 1973

Effective Date: For interim periods relating to fiscal years beginning after December 31, 1973

Affects: Amends APB 11, paragraph 6

Affected by: Paragraph 2 amended by FAS 95, paragraph 152(c), and FAS 130, paragraph 28(a)
Paragraph 16(a) amended by FSP AUG AIR-1, paragraph 8
Paragraph 19 amended by FAS 96, paragraph 204, and FAS 109, paragraph 287
Paragraph 20 and footnotes 2 and 3 amended by FAS 96, paragraph 205(g), and FAS 109, paragraph 288(h)
Paragraph 21 amended by FAS 141, paragraph E3; FAS 141(R), paragraph E39; FAS 144, paragraph C3; and FAS 145, paragraph 9(a)
Paragraphs 24 and 26 amended by FAS 154, paragraphs C5(a) and C5(c), respectively
Paragraph 25 deleted by FAS 154, paragraph C5(b)
Paragraph 27 and footnote 5 replaced by FAS 3, paragraph 15
Paragraph 27 and footnote 5 deleted by FAS 154, paragraph C5(d)
Paragraphs 27A through 27D added by FAS 3, paragraph 15, and deleted by FAS 154, paragraph C5(d)
Paragraph 29 amended by FAS 154, paragraph C19(a)
Paragraph 30 amended by FAS 135, paragraph 4(e); FAS 157, paragraph E2; and FAS 161, paragraph 6
Paragraph 30(a) amended by FAS 130, paragraph 28(b), and FAS 154, paragraph C19(a)
Paragraph 30(b) replaced by FAS 128, paragraph 164
Paragraph 30(e) amended by FAS 144, paragraph C3
Paragraph 30(i) added by FAS 131, paragraph 131, and amended by FAS 154, paragraph C19(a)
Paragraph 30(j) and footnote 8 added by FAS 148, paragraph 3, and deleted by FAS 123(R), paragraph D11
Paragraph 30(k) added by FAS 132(R), paragraph 15, and amended by FAS 158, paragraph F3
Paragraph 31 amended by FAS 3, paragraph 15; FAS 135, paragraph 4(e); and FAS 144, paragraph C3
Paragraph 33 amended by FAS 95, paragraph 151(a), and FAS 135, paragraph 4(e)
Footnote 1 added by FSP FAS 126-1, paragraph A2
Footnote 3 added by FAS 141, paragraph E3, and amended by FAS 141(R), paragraph E8

Other Interpretive Pronouncements: FIN 18
FTB 79-9

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: No EITF Issues

Interpreted by: Paragraph 11 interpreted by EITF Issue No. 98-9
Paragraph 14 interpreted by EITF Issue No. 86-13

Related Issues: EITF Issues No. 95-7 and 98-9 and Topic No. D-96
DISCUSSION

1. The purpose of this Opinion is to clarify the application of accounting principles and reporting practices to interim financial information, including interim financial statements and summarized interim financial data of publicly traded companies issued for external reporting purposes.

2. Interim financial information may include current data during a fiscal year on financial position, results of operations, comprehensive income, and cash flows. This information may be issued on a monthly or quarterly basis or at other intervals and may take the form of either complete financial statements or summarized financial data. Interim financial information often is provided for each interim period or on a cumulative year-to-date basis, or both, and for the corresponding periods of the preceding year.

3. APB Opinions and Accounting Research Bulletins make few specific references to the applicability of generally accepted accounting principles to financial statements for interim periods. A wide variety of practice exists in the application of accounting principles to interim financial information. This section indicates the applicability of generally accepted accounting principles to interim financial information and indicates types of disclosures necessary to report on a meaningful basis for a period of less than a full year.

4. The determination of the results of operations on a meaningful basis for intervals of less than a full year presents inherent difficulties. The revenues of some businesses fluctuate widely among interim periods because of seasonal factors, while in other businesses heavy fixed costs incurred in one interim period may benefit other periods. In these situations, financial information for periods of less than a full year may be of limited usefulness. In other situations costs and expenses related to a full year's activities are incurred at infrequent intervals during the year and need to be allocated to products in process or to other interim periods to avoid distortion of interim financial results. In view of the limited time available to develop complete information, many costs and expenses are estimated in interim periods. For example, it may not be practical to perform extensive reviews of individual inventory items, costs on individual long-term contracts and precise income tax calculations for each interim period. Subsequent refinement or correction of these estimates may distort the results of operations of later interim periods. Similarly, the effects of disposal of a segment of a business and extraordinary, unusual or infrequently occurring events and transactions on the results of operations in an interim period will often be more pronounced than they will be on the results for the annual period. Special attention must be given to disclosure of the impact of these items on financial information for interim periods.

5. The variety of practice that exists in the presentation of interim financial information is partly attributable to differing views as to the principal objective of interim financial information.

a. Some view each interim period as a basic accounting period and conclude that the results of operations for each interim period should be determined in essentially the same manner as if the interim period were an annual accounting period. Under this view deferrals, accruals, and estimations at the end of each interim period are determined by following essentially the same principles and judgments that apply to annual periods.

b. Others view each interim period primarily as being an integral part of the annual period. Under this view deferrals, accruals, and estimations at the end of each interim period are affected by judgments made at the interim date as to results of operations for the balance of the annual period. Thus, an expense item that might be considered as falling wholly within an annual accounting period (no fiscal year-end accrual or deferral) could be allocated among interim periods based on estimated time, sales volume, productive activity, or some other basis.

6. Despite these differing views and limitations, periodic and timely financial information during a fiscal year is useful to investors and others. The principal objectives of this section are to provide guidance on accounting and disclosure issues peculiar to interim reporting and to set forth minimum disclosure requirements for interim financial reports of publicly traded companies. The Opinion is not intended to deal with unresolved matters of accounting related to annual reporting.
OPINION

Applicability

7. The Board has reviewed the applicability of APB Opinions and Accounting Research Bulletins in relation to the current practices followed in the preparation and reporting of interim financial information. The Board believes the accounting principles and reporting practices in the Opinions and Bulletins should apply to interim financial information in the manner set forth in this section. The guides expressed in this section are applicable whenever companies issue interim financial information.

8. This Opinion (a) outlines (Part I, paragraphs 9-29) the application of generally accepted accounting principles to the determination of income when interim financial information is presented, (b) provides (paragraphs 19 and 20) for the use of estimated effective income tax rates (thus modifying paragraph 6 of APB Opinion No. 11, Accounting for Income Taxes), and (c) specifies (Part II, paragraphs 30-33) certain disclosure requirements for summarized financial information issued by publicly traded companies.

PART 1

Standards for Determining Interim Financial Information

9. Interim financial information is essential to provide investors and others with timely information as to the progress of the enterprise. The usefulness of such information rests on the relationship that it has to the annual results of operations. Accordingly, the Board has concluded that each interim period should be viewed primarily as an integral part of an annual period.

10. In general, the results for each interim period should be based on the accounting principles and practices used by an enterprise in the preparation of its latest annual financial statements unless a change in an accounting practice or policy has been adopted in the current year (paragraphs 23-29). However, the Board has concluded that certain accounting principles and practices followed for annual reporting purposes may require modification at interim reporting dates so that the reported results for the interim period may better relate to the results of operations for the annual period. Paragraphs 12-20 set forth the modifications that are necessary or desirable at interim dates in accounting principles or practices followed for annual periods.

Revenue

11. Revenue from products sold or services rendered should be recognized as earned during an interim period on the same basis as followed for the full year. For example, revenues from long-term construction-type contracts accounted for under the percentage-of-completion method should be recognized in interim periods on the same basis followed for the full year. Losses projected on such contracts should be recognized in full during the interim period in which the existence of such losses becomes evident.

Costs and Expenses

12. Costs and expenses for interim reporting purposes may be classified as:

a. Costs associated with revenue - those costs that are associated directly with or allocated to the products sold or to the services rendered and which are charged against income in those interim periods in which the related revenue is recognized.

b. All other costs and expenses - those costs and expenses that are not allocated to the products sold or to the services rendered and which are charged against income in interim fiscal periods as incurred, or are allocated among interim periods based on an estimate of time expired, benefit received, or other activity associated with the periods.

Costs Associated with Revenue
13. Those costs and expenses that are associated directly with or allocated to the products sold or to the services rendered for annual reporting purposes (including, for example, material costs, wages and salaries and related fringe benefits, manufacturing overhead, and warranties) should be similarly treated for interim reporting purposes.

14. Practices vary in determining costs of inventory. For example, cost of goods produced may be determined based on standard or actual cost, while cost of inventory may be determined on an average, FIFO, or LIFO cost basis. While companies should generally use the same inventory pricing methods and make provisions for writedowns to market at interim dates on the same basis as used at annual inventory dates, the following exceptions are appropriate at interim reporting dates:

a. Some companies use estimated gross profit rates to determine the cost of goods sold during interim periods or use other methods different from those used at annual inventory dates. These companies should disclose the method used at the interim date and any significant adjustments that result from reconciliations with the annual physical inventory.

b. Companies that use the LIFO method may encounter a liquidation of base period inventories at an interim date that is expected to be replaced by the end of the annual period. In such cases the inventory at the interim reporting date should not give effect to the LIFO liquidation, and cost of sales for the interim reporting period should include the expected cost of replacement of the liquidated LIFO base.

c. Inventory losses from market declines should not be deferred beyond the interim period in which the decline occurs. Recoveries of such losses on the same inventory in later interim periods of the same fiscal year through market price recoveries should be recognized as gains in the later interim period. Such gains should not exceed previously recognized losses. Some market declines at interim dates, however, can reasonably be expected to be restored in the fiscal year. Such temporary market declines need not be recognized at the interim date since no loss is expected to be incurred in the fiscal year.

d. Companies that use standard cost accounting systems for determining inventory and product costs should generally follow the same procedures in reporting purchase price, wage rate, usage or efficiency variances from standard cost at the end of an interim period as followed at the end of a fiscal year. Purchase price variances or volume or capacity cost variances that are planned and expected to be absorbed by the end of the annual period, should ordinarily be deferred at interim reporting dates. The effect of unplanned or unanticipated purchase price or volume variances, however, should be reported at the end of an interim period following the same procedures used at the end of a fiscal year.

All Other Costs and Expenses

15. Charges are made to income for all other costs and expenses in annual reporting periods based upon (a) direct expenditures made in the period (salaries and wages), (b) accruals for estimated expenditures to be made at a later date (vacation pay) or (c) amortization of expenditures that affect more than one annual period (insurance premiums, interest, rents). The objective in all cases is to achieve a fair measure of results of operations for the annual period and to present fairly the financial position at the end of the annual period. The Board has concluded that the following standards should apply in accounting for costs and expenses other than product costs in interim periods:

a. Costs and expenses other than product costs should be charged to income in interim periods as incurred, or be allocated among interim periods based on an estimate of time expired, benefit received or activity associated with the periods. Procedures adopted for assigning specific cost and expense items to an interim period should be consistent with the bases followed by the company in reporting results of operations at annual reporting dates. However, when a specific cost or expense item charged to expense for annual reporting purposes benefits more than one interim period, the cost or expense item may be allocated to those interim periods. (See paragraph 16.)

b. Some costs and expenses incurred in an interim period, however, cannot be readily identified with the activities or benefits of other interim periods and should be charged to the interim period in which incurred. Disclosure should be made as to the nature and amount of such costs unless items of a comparable nature are included in both the current interim period and in the corresponding interim
period of the preceding year.
c. Arbitrary assignment of the amount of such costs to an interim period should not be made.
d. Gains and losses that arise in any interim period similar to those that would not be deferred at year end should not be deferred to later interim periods within the same fiscal year.

16. A complete listing of examples of application of the standards set forth in paragraph 15 is not practical; however, the following examples of applications may be helpful:

a. When a cost that is expensed for annual reporting purposes clearly benefits two or more interim periods, each interim period should be charged for an appropriate portion of the annual cost by the use of accruals or deferrals.
b. When quantity discounts are allowed customers based upon annual sales volume, the amount of such discounts charged to each interim period should be based on the sales to customers during the interim period in relation to estimated annual sales.
c. Property taxes (and similar costs such as interest and rent) may be accrued or deferred at annual reporting date, to achieve a full year's charge of taxes to costs and expenses. Similar procedures should be adopted at each interim reporting date to provide an appropriate cost in each period.
d. Advertising costs may be deferred within a fiscal year if the benefits of an expenditure made clearly extend beyond the interim period in which the expenditure is made. Advertising costs may be accrued and assigned to interim periods in relation to sales prior to the time the service is received if the advertising program is clearly implicit in the sales arrangement.

17. The amounts of certain costs and expenses are frequently subjected to year-end adjustments even though they can be reasonably approximated at interim dates. To the extent possible such adjustments should be estimated and the estimated costs and expenses assigned to interim periods so that the interim periods bear a reasonable portion of the anticipated annual amount. Examples of such items include inventory shrinkage, allowance for uncollectible accounts, allowance for quantity discounts, and discretionary year-end bonuses.

Seasonal Revenue, Costs, or Expenses

18. Revenues of certain businesses are subject to material seasonal variations. To avoid the possibility that interim results with material seasonal variations may be taken as fairly indicative of the estimated results for a full fiscal year, such businesses should disclose the seasonal nature of their activities, and consider supplementing their interim reports with information for twelve-month periods ended at the interim date for the current and preceding years.


19. In reporting interim financial information, income tax provisions should be determined under the procedures set forth in APB Opinion No. 23 and FASB Statement No. 109, Accounting for Income Taxes. At the end of each interim period the company should make its best estimate of the effective tax rate expected to be applicable for the full fiscal year. The rate so determined should be used in providing for income taxes on a current year-to-date basis. The effective tax rate should reflect anticipated investment tax credits, foreign tax rates, percentage depletion, capital gains rates, and other available tax planning alternatives. However, in arriving at this effective tax rate no effect should be included for the tax related to significant unusual or extraordinary items that will be separately reported or reported net of their related tax effect in reports for the interim period or for the fiscal year. \textsuperscript{2}

20. The tax effects of losses that arise in the early portion of a fiscal year should be recognized only when the tax benefits are expected to be (a) realized during the year or (b) recognizable as a deferred tax asset at the end of the year in accordance with the provisions of Statement 109. An established seasonal pattern of loss in early interim periods offset by income in later interim periods should constitute evidence that realization is more likely than not, unless other evidence indicates the established seasonal pattern will not prevail. The tax effects of losses incurred in early interim periods may be recognized in a later interim period of a fiscal year if their realization, although initially uncertain, later becomes more likely than not. When the tax effects of losses that arise in the early portions of a fiscal year are not recognized in that
interim period, no tax provision should be made for income that arises in later interim periods until the tax effects of the previous interim losses are utilized. III. The tax effect of a valuation allowance expected to be necessary for a deferred tax asset at the end of the year for originating deductible temporary differences and carryforwards during the year should be included in the effective tax rate. The effect of a change in the beginning-of-the-year balance of a valuation allowance as a result of a change in judgment about the realizability of the related deferred tax asset in future years shall not be apportioned among interim periods through an adjustment of the effective tax rate but shall be recognized in the interim period in which the change occurs. The effects of new tax legislation shall not be recognized prior to enactment. The tax effect of a change in tax laws or rates on taxes currently payable or refundable for the current year shall be reflected after the effective dates prescribed in the statutes in the computation of the annual effective tax rate beginning no earlier than the first interim period that includes the enactment date of the new legislation. The effect of a change in tax laws or rates on a deferred tax liability or asset shall not be apportioned among interim periods through an adjustment of the annual effective tax rate. The tax effect of a change in tax laws or rates on taxes payable or refundable for a prior year shall be recognized as of the enactment date of the change as tax expense (benefit) for the current year.

**Disposal of a Component of an Entity and Extraordinary, Unusual, Infrequently Occurring and Contingent Items**

21. Extraordinary items should be disclosed separately and included in the determination of net income for the interim period in which they occur. In determining materiality, extraordinary items should be related to the estimated income for the full fiscal year. Effects of disposals of a component of an entity and unusual and infrequently occurring transactions and events that are material with respect to the operating results of the interim period but that are not designated as extraordinary items in the interim statements should be reported separately. In addition, matters such as unusual seasonal results and business combinations should be disclosed to provide information needed for a proper understanding of interim financial reports. IV. Extraordinary items, gains or losses from disposal of a component of an entity, and unusual or infrequently occurring items should not be prorated over the balance of the fiscal year.

22. Contingencies and other uncertainties that could be expected to affect the fairness of presentation of financial data at an interim date should be disclosed in interim reports in the same manner required for annual reports. IV. Such disclosures should be repeated in interim and annual reports until the contingencies have been removed, resolved, or have become immaterial.

**Accounting Changes**

23. Each report of interim financial information should indicate any change in accounting principles or practices from those applied in (a) the comparable interim period of the prior annual period, (b) the preceding interim periods in the current annual period and (c) the prior annual report.

24. Changes in an interim or annual accounting principle made in an interim period should be reported in the period in which the change is made, in accordance with the provisions of FASB Statement No. 154, Accounting Changes and Error Corrections.

25. [This paragraph has been deleted. See Status page.]

26. The effect of a change in an accounting estimate, including a change in the estimated effective annual tax rate, should be accounted for in the period in which the change in estimate is made. No restatement of previously reported interim information should be made for changes in estimates, but the effect on earnings of a change in estimate made in a current interim period should be reported in the current and subsequent interim periods, if material in relation to any period presented and should continue to be reported in the interim financial information of the subsequent year for as many periods as necessary to avoid misleading comparisons. Such disclosure should conform with paragraph 22 of Statement 154.

**Cumulative Effect Type Accounting Changes Other Than Changes to LIFO**

27–27D.[These paragraphs have been deleted. See Status page.]
The Board recommends that, whenever possible, companies adopt any accounting changes during the first interim period of a fiscal year. Changes in accounting principles and practices adopted after the first interim period in a fiscal year tend to obscure operating results and complicate disclosure of interim financial information.

In determining materiality for the purpose of reporting the correction of an error, amounts should be related to the estimated income for the full fiscal year and also to the effect on the trend of earnings. Changes that are material with respect to an interim period but not material with respect to the estimated income for the full fiscal year or to the trend of earnings should be separately disclosed in the interim period.

The Board recognizes that many publicly traded companies report summarized financial information at periodic interim dates in considerably less detail than that provided in annual financial statements. While this information provides more timely information than would result if complete financial statements were issued at the end of each interim period, the timeliness of presentation may be partially offset by a reduction in detail in the information provided. As a result, the Board recognizes that certain guides as to minimum disclosure are desirable. When publicly traded companies report summarized financial information at interim dates (including reports on fourth quarters), the following data should be reported, as a minimum:

a. Sales or gross revenues, provision for income taxes, extraordinary items (including related income tax effects), net income, and comprehensive income.

The following information about reportable operating segments determined according to the provisions of FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, including provisions related to restatement of segment information in previously issued financial statements:

(1) Revenues from external customers
(2) Intersegment revenues
(3) A measure of segment profit or loss
(4) Total assets for which there has been a material change from the amount disclosed in the last annual report
(5) A description of differences from the last annual report in the basis of segmentation or in the measurement of segment profit or loss
(6) A reconciliation of the total of the reportable segments’ measures of profit or loss to the enterprise's consolidated income before income taxes, extraordinary items, and discontinued operations. However, if, for example, an enterprise allocates items such as income taxes and extraordinary items to segments, the enterprise may choose to reconcile the total of the segments’ measures of profit or loss to consolidated income after those items. Significant reconciling items shall be separately identified and described in that reconciliation.

7b[This footnote has been deleted because the effective date of Statement 154 has passed.]
j. [This subparagraph has been deleted. See Status page.]

8[This footnote has been deleted. See Status page.]
k. The following information about defined benefit pension plans and other defined benefit postretirement benefit plans, disclosed for all periods presented pursuant to the provisions of FASB Statement No. 132 (revised 2003), Employers’ Disclosures about Pensions and Other Postretirement Benefits:

(1) The amount of net periodic benefit cost recognized, for each period for which a statement of income is presented, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the gain or loss component, the prior service cost or credit component, the transition asset or obligation component, and the gain or loss recognized due to a settlement or curtailment.

(2) The total amount of the employer’s contributions paid, and expected to be paid, during the current fiscal year, if significantly different from amounts previously disclosed pursuant to paragraph 5(g) of Statement 132(R). Estimated contributions may be presented in the aggregate combining (a) contributions required by funding regulations or laws, (b) discretionary contributions, and (c) noncash contributions.

When summarized financial data are regularly reported on a quarterly basis, the foregoing information with respect to the current quarter and the current year-to-date or the last twelve months to date should be furnished together with comparable data for the preceding year.

l. The information about the use of fair value to measure assets and liabilities recognized in the statement of financial position pursuant to paragraphs 32 and 33 of FASB Statement No. 157, Fair Value Measurements.

m. The information about derivative instruments as required by FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities.

31. When interim financial data and disclosures are not separately reported for the fourth quarter, users of the interim financial information often make inferences about that quarter by subtracting data based on the third quarter interim report from the annual results. In the absence of a separate fourth quarter report or disclosure of the results (as outlined in paragraph 30) for that quarter in the annual report, disposals of components of an entity and extraordinary, unusual, or infrequently occurring items recognized in the fourth quarter, as well as the aggregate effect of year-end adjustments which are material to the results of that quarter (see paragraphs 4 and 17) should be disclosed in the annual report in a note to the annual financial statements. When a publicly traded company that regularly reports interim information makes an accounting change during the fourth quarter of its fiscal year and does not report the data specified by paragraph 30 of this Opinion in a separate fourth quarter report or in its annual report, the disclosures about the effect of the accounting change on interim periods that are required by paragraphs 23–26 of this Opinion or by paragraphs 27-27D of this Opinion, as appropriate, shall be made in a note to the annual financial statements for the fiscal year in which the change is made.

32. Disclosure of the impact of the financial results for interim periods of the matters discussed in paragraphs 21-29 is desirable for as many subsequent periods as necessary to keep the reader fully informed. The Board believes there is a presumption that users of summarized interim financial data will have read the latest published annual report, including the financial disclosures required by generally accepted accounting principles and management's commentary concerning the annual financial results, and that the summarized interim data will be viewed in that context. In this connection, the Board encourages management to provide commentary relating to the effects of significant events upon the interim financial
results.

33. The Board encourages publicly traded companies to publish balance sheet and cash flow data at interim dates since these data often assist users of the interim financial information in their understanding and interpretation of the income data reported. When condensed interim balance sheet information or cash flow data are not presented at interim reporting dates, significant changes since the last reporting period with respect to liquid assets, net working capital, long-term liabilities, or stockholders' equity should be disclosed.

**EFFECTIVE DATE**

34. This Opinion shall be effective for interim financial information issued for all interim periods relating to fiscal years beginning after December 31, 1973. However, the Board encourages earlier application of the provisions of this Opinion.

35. When interim financial data are presented for prior interim periods for comparative purposes, these data should be restated on a basis consistent with procedures newly adopted, or the effect on the prior interim period data had the newly adopted procedures been applicable for that period should be disclosed.

The Opinion entitled "Interim Financial Reporting" was adopted by the assenting votes of fourteen members of the Board, of whom two, Messrs. Horngren and Norr, assented with qualification. Messrs. Cummings, Halvorson, Hayes and Watt dissented.

Mr. Horngren assents to this Opinion because it provides a step in the right direction. However, he believes this Opinion does not resolve the differing views as to the principal objective of interim financial information, as described in paragraph 5. Until the principal objective is agreed upon, interim financial reporting will, in his opinion, continue to be too diverse.

Mr. Norr assents with qualification. He believes that income for publicly traded companies should be reported in the same detail as in the annual report. Illustrations of a few necessary items would be cost of goods sold, depreciation, and the investment tax credit. (Par. 30). He believes that the text of all releases accompanying interim reports should not depart from generally accepted accounting principles. In addition he believes that interim reports should explain variances from the comparable period of the prior year and should discuss material corporate developments. Thus explanations should be provided indicating the impact on net income of volume, prices, start-up costs or shifts in the line of business. He also believes that in most circumstances each interim period is a discrete period and that the Opinion encourages normalizing and smoothing income, concealing the actual level of activity.

Mr. Cummings dissents from part I of this Opinion because he believes paragraphs 9 through 17 provide inadequate and inherently contradictory guidelines for the determination of income and expenses appropriate for interim reporting. He agrees with the concept expressed in paragraph 9 that each interim period should be viewed primarily as being an integral part of an annual period. However, he points out that succeeding paragraphs sanction inconsistent concepts which, for example, permit the recognition of costs in interim periods as incurred, or allocation based on an estimate of time expired, benefit received, or other associated activity. As a consequence, instead of establishing appropriate accounting principles to be followed in the preparation of interim financial reports, the lack of adequate guidelines must necessarily lead to confusion which can only serve to dilute investor confidence in and understanding of the financial account process.

Messrs. Halvorson, Hayes and Watt dissent from part I of this Opinion because they believe that the essential concepts of accrual and deferral of costs and expenses that are applicable to annual periods are equally applicable to interim periods. They observe that any interim period is both a discrete accounting period and a fraction of an annual period in the same sense that an annual report is both a discrete accounting period and a segment of the period representing the life of the enterprise and they believe it is unnecessary to characterize an interim period as either of these things to the exclusion of the other for purposes of establishing appropriate accounting principles. In general, they believe that financial statements for any period (which is necessarily both a discrete period and a segment of a larger period) should reflect the events of that period. In their view the Opinion encourages normalizing income by arbitrarily normalizing expenses, thereby concealing actual results of operations of an interim period. In so doing, the
Opinion ignores the fundamental concept of consistency by condoning the use of interim principles and practices inconsistent with accounting policies used in the preparation of annual financial statements. While they recognize that the shorter a reporting period the less useful it is as a predictive tool, they do believe that it is not a proper function of accounting to adjust the historical accounting for any period in order to produce purported results of operations more representative of other periods than the events of that period.

They believe paragraphs 9 through 17 provide inadequate and inherently contradictory guidelines for the determination of income and expenses appropriate for interim reporting. Relative to certain businesses subject to material seasonal variations, the admonition in paragraph 18 to "avoid the possibility that interim results with material seasonal variations may be taken as fairly indicative of the estimated results for a full fiscal year" gives no practical guidance to problems of income measurement in such businesses.

They believe that the problem which the Opinion should have covered is one of measuring income during periods representing fractions of annual or other cycles, a problem which is not peculiar to interim reports. In their view, a proper approach to this problem would recognize that many activities and events of a business occur in and are related to such annual or other cycles. Some are related to such cycles for physical reasons (e.g., the harvesting and marketing of agricultural products) and some by reason of custom, law or contract (e.g., annual bonuses and income taxes). Methods of accruing or deferring various costs and expenses relating to such cycles should be developed and they should be applied consistently during interim periods and in annual financial statements. Under this approach, there is no need or justification for accruals and deferrals in interim periods which are not also recognized at year end. Likewise, if the application of a previously accepted year-end accounting principle to interim periods is found to be inappropriate and another principle adopted, it should be necessary to change the principle applied at the year end to be consistent with the principle considered necessary for a fair presentation of results of operations for the interim period.

Messrs. Cummings, Halvorson, Hayes, and Watt dissent from part II of this Opinion because it prescribes "minimum" disclosures of selected financial information without offering an understandable frame of reference. They observe that such minimum standards prescribe some disclosures not required when complete statements are presented and fail to prescribe others which are required when complete statements are presented. Since such summarized financial information is not intended to "present fairly" results of operations or financial position, they believe it is not appropriate for the Board to establish disclosure requirements for only a limited group of companies, namely publicly traded companies, which has the effect of simply regulating them and which will not result in consistent interim reports to security holders and other users of financial statements of all companies. They observe that paragraph 31 of part II requires disclosure of "disposals of a segment of a business and extraordinary, unusual or infrequently occurring items recognized in the fourth quarter, as well as the aggregate effect of year end adjustments which are material to the results of that quarter." To them it is inappropriate to require in annual financial statements disclosure of information relative solely to interim periods and irrelevant in a report of results of operations for a fiscal year. They believe also that this requirement creates an unreasonable burden on all parties involved in reporting annual results of operations, particularly since it offers no guidance for implementing the required disclosure of "the aggregate effect of year end adjustments."

APB 28 NOTES

Opinions of the Accounting Principles Board present the conclusions of at least two-thirds of the members of the Board.

Board Opinions 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.

Rule 203 of the Institute's Rules of Conduct prohibits a member from expressing his opinion that financial statements are presented in conformity with generally accepted accounting principles if the statements depart in a material respect from such principles unless he can demonstrate that due to unusual circumstances application of the principles would result in misleading statements—in which case his report must describe the departure, its approximate effects, if practicable, and the reasons why compliance with
the established principles would result in misleading statements.

Pursuant to resolution of Council, this Opinion of the APB establishes, until such time as they are expressly superseded by action of FASB, accounting principles which fall within the provisions of Rule 203 of the Rules of Conduct.

**Accounting Principles Board (1973)**

Philip L. Defliese,  
*Chairman*  
Donald J. Bevis  
Albert J. Bows  
Milton M. Broeker  
Leo E. Burger  
Joseph P. Cummings

Robert L. Ferst  
Oscar S. Gellein  
Newman T. Halvorson  
Robert Hampton, III  
Donald J. Hayes  
Charles B. Hellerson

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1APB28, Footnote 1—A publicly traded company for purposes of this Opinion includes any company whose securities trade in a public market on either (1) a stock exchange (domestic or foreign) or (2) in the over-the-counter market (including securities quoted only locally or regionally), or any company that is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets). Additionally, when a company makes a filing with a regulatory agency in preparation for sale of its securities in a public market it is considered a publicly traded company for this purpose.

**Conduit debt securities** refers to certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government’s financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

iiAPB28, Footnote 2—Disclosure should be made of the reasons for significant variations in the customary relationship between income tax expense and pretax accounting income, if they are not otherwise apparent from the financial statements or from the nature of the entity’s business (refer to FASB Statement No. 109, *Accounting for Income Taxes*, paragraph 47).

iiiAPB28, Footnote 3—The tax benefits of interim losses accounted for in this manner would not be reported as extraordinary items in the results of operations of the interim period.

iv[Note: Prior to the adoption of FASB Statement No. 141 (revised 2007), *Business Combinations* (effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after 12/15/08), footnote 3a should read as follows:]

APB28, Footnote 3a—Disclosures required in interim financial information related to a business combination are set forth in paragraph 58 of FASB Statement No. 141, *Business Combinations*.

v[Note: After the adoption of Statement 141(R), footnote 3a should read as follows:]

APB28, Footnote 3a—Disclosures required in interim financial information related to a business combination are set forth in paragraphs 67-73 of FASB Statement No. 141(revised 2007), *Business Combinations*.

viAPB28, Footnote 4—The significance of a contingency or uncertainty should be judged in relation to annual financial statements. Disclosures or such items should include, but not be limited to, those matters that form the basis of a qualification of an independent auditor's report.

viiAPB28, Footnote 6—See footnote 1.

viiAPB28, Footnote 7—It should be recognized that the minimum disclosures of summarized interim financial data required of publicly traded companies by part II of this Opinion do not constitute a fair presentation of financial position and results of operations in conformity with generally accepted
accounting principles.

viii APB 28 Footnote 9—See footnote 5.