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CHAPTER I--FEDERAL ENERGY REGULATORY COMMISSION,
DEPARTMENT OF ENERGY

Instructions for Balance Sheet Accounts

2-1 *Current assets.* In the group of accounts designated as current assets shall be included cash and other assets or resources commonly identified as those which are reasonably expected to be realized in cash or sold or consumed within a one-year period. There shall not be included any amount the collection of which is not reasonably assured by the known financial condition of the debtor or otherwise. Items of current character but of doubtful value shall be written down or written off to account 510, Supplies and Expenses, or to account 660, Miscellaneous Income Charges, as appropriate.

2-2 *Investments and special funds.* (a) This group of accounts shall include the cost of long-term investments in securities other than those of the accounting carrier, investment advances, sinking and other funds, cash value of life insurance policies, and other items of similar nature.

(b) Investment in securities shall be recorded at cost at time of acquisition excluding amounts paid for accrued interest and dividends. When securities with a fixed maturity date are purchased at a discount or premium, such discount or premium shall be amortized over the remaining life of the securities by periodical debits or credits to the account in which the cost of the securities is recorded with corresponding credits or debits to interest income. If the amount of the discount or premium is minor, the investment may be maintained at actual cost without adjustment, and the amount of discount or premium recorded in the interest income account at the time the securities mature.

(c)(1) For financial statement purposes the carrier shall follow the principles of equity accounting for (1) all investments in corporate joint ventures (see definition 31(c)), and (2) all investments in voting stock of affiliated companies giving the carrier the ability to

significantly influence the operating and financial policies of an investee (see definition 31(b)). For purposes of this instruction an investment of 20 percent or more of the outstanding voting stock of an investee will indicate the ability to exercise significant influence over an investee in the absence of evidence to the contrary.

(2) Since the equity method is not to be effected by entries in the books of accounts but is to apply only in financial reports to the Commission, the carrier shall establish worksheet or memorandum accounts. Three basic worksheet or memorandum accounts are needed:

(a) An investment account to include (1) equity in the undistributed earnings or losses of the investee since the date of acquisition (see definition 31(g)); (2) accumulated amortization of the difference between cost and net assets at date of acquisition (see (c)(3) below); and other adjustments for disposition or writedown of investments.

(b) An income account to include (1) the investor's share of the investee's undistributed profits or losses for each reporting period subsequent to acquisition of the investment except that in the year of acquisition such amount shall be determined from the date of acquisition; (2) amortization for the reporting period of the difference between cost and net assets at date of acquisition. This account shall be closed at year-end to the retained income memorandum account discussed in paragraph (c) below.

(c) A retained income account to include (1) equity in the undistributed earnings or losses of the investee since the date of acquisition; (2) accumulated amortization of the difference between cost and net assets acquired at date of acquisition (see (c)(3) below).

(d) Other memorandum accounts will be needed for such adjustments as

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gains and losses on disposition of investments, recognition of impairments in value, the investor's share of extraordinary and prior period items reported in the investee's financial statements (see instruction 1-6), and provision for deferred taxes where it is reasonable to assume that undistributed earnings of an investee will be transferred to the investor in a taxable distribution. These memorandum accounts shall be closed at year-end to the retained income memorandum account discussed in paragraph (c) above.

(3) The carrier shall retain the following information for each investee in support of the worksheet or memorandum accounts:

(a) Original cost of investment.

(b) Equity in net assets of investee at date of acquisition.

(c) Allocation of difference between cost and equity in net assets, namely, to specific assets of investee or to goodwill.

(d) Accumulated amortization of difference between cost and equity in net assets.

(e) Unamortized balance of difference between cost and equity in net assets.

(f) Equity in undistributed earnings/losses for each year since date of acquisition.

(g) Dividends received since date of acquisition if determinable.

(h) Proceeds from sale of investments.

(4) Any difference between the investor's cost and its share of the net assets of the investee at date of acquisition shall be allocated to specific assets of the investee to the extent the difference is attributable to them. When the difference is allocated to depreciable or amortizable assets, depreciation and amortization (through the investment and income memorandum accounts) should absorb the difference over the remaining life of the related assets. If the difference is not related to specific accounts, it should be considered goodwill and amortized over a reasonable period not to exceed 40 years. For investments made prior to November 1, 1970, amortization of goodwill is not required in the absence of evidence that the goodwill has a limited term of existence.

(5) The financial statements of the investee that are used for equity accounting should be timely. If the accounting year of the investee differs from that of the investor then the most recent available financial statements may be used. The lag in reporting should be consistent from period to period.

(6) Material profits or losses on transactions between the investor and investee shall be eliminated until realized by either company as if the two were consolidated.

(7) A transaction of the investee of a capital nature that affects the investor's share of the investee's stockholder's equity should be reported in the financial statements as if the two were consolidated.

(8) The investor shall deduct any dividends applicable to outstanding cumulative preferred stock whether or not declared, and any other dividends declared when computing its share of undistributed earnings or losses.

(9) The investor shall suspend application of the equity method when the investment (including the investment memorandum account) together with any net advances made to the investee is reduced to zero.

Additional losses shall not be provided for unless the investor has guaranteed obligations of the investee or is otherwise committed to

provide further financial support for the investee. If the investee subsequently reports net income the investor shall resume applying the equity method at such time as its share of that net income equals the share of net losses not recognized during the period of suspension.

(10) When the investor's voting stock interest falls below the level of ownership described in paragraph (c)(1) of this instruction, the investment no longer qualifies for the equity method. Should dividends received on the investment in subsequent periods exceed the investor's share of earnings for such periods, the investment memorandum and income memorandum accounts shall be reduced by the excess amount.

(11) When the level of ownership of an investment increases to that described in paragraph (c)(1) of this instruction, the equity method shall be applied. The

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memorandum accounts for the investment, income (for current year's equity in undistributed earnings less amortization), and retained income (for prior years' equity in undistributed earnings less amortization) shall be adjusted retroactively on a step-by-step basis determining the equity in net assets at date of acquisition, amortization adjustment, and equity in undistributed earnings or losses at each level of ownership. Where small purchases are made over a period of time and then a purchase is made which qualifies the investment for the equity method, the date of latest purchase may be used as date of acquisition. In those situations where the information needed to apply the equity method is not determinable, the date of acquisition may be considered as January 1, 1974.

(12) Information having significance with respect to the investor's ownership in investees shall be disclosed in notes to financial statements of annual reports filed with the Commission in accordance with generally accepted accounting principles.

Note A: The carrier shall follow generally accepted accounting principles where an interpretation of the rules for equity accounting is needed or obtain an interpretation from its public accountant or the Commission.

[32 FR 20241, Dec. 20, 1967, as amended at 39 FR 34043, Sept. 23, 1974. Redesignated by Order 119, 46 FR 9044, Jan. 28, 1981]

2-3 *Tangible property.* The cost of property owned that is devoted

to transportation service shall be recorded in account 30, Carrier Property, and in account 33, Operating Oil Supply. This includes carrier's investment in jointly-owned transportation property in which it has an undivided ownership interest. The cost of other property not directly associated with pipeline operations shall be included in account 34, Noncarrier Property. Property used in both carrier and noncarrier services shall be classified in account 30 or account 34 according to its dominant use.

2-4 *Other assets and deferred charges.* Account 40, Organization Costs and Other Intangibles, is prescribed for organization costs and other intangible assets, such as patents and franchises. These intangible assets shall be recorded at cost. Accounts are also prescribed for assets not otherwise provided for and for charges applicable to future periods.

2-5 *Current liabilities.* In this group of accounts shall be included obligations which are payable on demand or mature or become due within one year from the date of the balance sheet.

2-6 *Noncurrent liabilities.* Includible under this category of account are those obligations which are not due to be liquidated within one year from the date of the balance sheet. Estimates of future fire losses or other contingencies shall not be accounted for as current expenses or recorded as liabilities. Such contingencies may be provided for by appropriations of retained income, the losses to be recognized in income when sustained.

2-7 *Contingent assets and liabilities.* (a) A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to a carrier that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of a liability or the loss or impairment of an asset or the incurrence of a liability.

(b) An estimated loss from a contingent liability shall be charged to income if it is probable that an asset had been impaired or a liability had been incurred and the amount of the loss can be reasonably estimated. The carrier shall disclose in a footnote in its annual report any accrued contingent liabilities, along with any contingent liabilities not meeting both conditions for accrual if there is a reasonable possibility that a liability may have been incurred.

(c) Contingent assets should not be reflected in the accounts. The carrier shall disclose in a footnote in its annual report any contingencies that might result in an asset.