

**§ 32.26 Materiality.**

Companies shall follow this system of accounts in recording all financial and statistical data irrespective of an individual item's materiality under GAAP, unless a waiver has been granted under the provisions of § 32.18 of this subpart to do otherwise.

**§ 32.27 Transactions with affiliates.**

(a) Unless otherwise approved by the Chief, Common Carrier Bureau, transactions with affiliates involving asset transfers into or out of the regulated accounts shall be recorded by the carrier in its regulated accounts as provided in paragraphs (b) through (f) of this section.

(b) Assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price valuation, as defined in paragraph (d) of this section, shall be recorded at the prevailing price. For all other assets sold by or transferred from a carrier to its affiliate, the assets shall be recorded at the higher of fair market value and net book cost. For all other assets purchased by or transferred to a carrier from its affiliate, the assets shall be recorded at the lower of fair market value and net book cost. For purposes of this section carriers are required to make a good faith determination of fair market value.

(c) Services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate. Non-tariffed services provided between a carrier and its affiliate pursuant to publicly-filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly-filed agreements or statements. Non-tariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation, as defined

in paragraph (d) of this section, shall be recorded at the prevailing price. For all other services provided by a carrier to its affiliate, the services shall be recorded at the higher of fair market value and fully distributed cost. For all other services received by a carrier from its affiliate, the service shall be recorded at the lower of fair market value and fully distributed cost. For purposes of this section, carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds \$500,000. When a carrier reaches or exceeds the \$500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction in accordance with the affiliate transactions rules on a going-forward basis. All services received by a carrier from its affiliate(s) that exist solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.

(d) In order to qualify for prevailing price valuation in paragraphs (b) and (c) of this section, sales of a particular asset or service to third parties must encompass greater than 50 percent of the total quantity of such product or service sold by an entity. Carriers shall apply this 50 percent threshold on an asset-by-asset and service-by-service basis, rather than on a product line or service line basis. In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 50 percent threshold has been satisfied.

(e) Income taxes shall be allocated among the regulated activities of the carrier, its nonregulated divisions, and members of an affiliated group. Under circumstances in which income taxes are determined on a consolidated basis by the carrier and other members of the affiliated group, the income tax expense to be recorded by the carrier shall be the same as would result if determined for the carrier separately for all time periods, except that the tax effect of carry-back and carry-forward operating losses, investment tax credits, or other tax credits generated by

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operations of the carrier shall be recorded by the carrier during the period in which applied in settlement of the taxes otherwise attributable to any member, or combination of members, of the affiliated group.

(f) Companies that employ average schedules in lieu of actual costs are exempt from the provisions of this section. For other organizations, the principles set forth in this section shall apply equally to corporations, proprietorships, partnerships and other forms of business organizations.

[52 FR 6561, Mar. 4, 1987; 52 FR 39534, Oct. 22, 1987, as amended at 62 FR 2925, Jan. 21, 1997; 65 FR 16334, Mar. 28, 2000]

**Subpart C—Instructions for Balance Sheet Accounts**

**§ 32.101 Structure of the balance sheet accounts.**

The Balance Sheet accounts shall be maintained as follows:

Account 1120, Cash and Equivalents, through Account 1500, Other Jurisdictional Assets—Net, shall include assets other than regulated-fixed assets.

Account 2001, Telecommunications Plant in Service, through Account 2007, Goodwill, shall include the regulated fixed assets.

Account 3100, Accumulated Depreciation through Account 3600, Accumulated Amortization—Other, shall include the asset and deferred tax reserves.

Account 4010, Accounts Payable, through Account 4550, Retained Earnings, shall include all liabilities and stockholders equity.

**§ 32.102 Nonregulated investments.**

Nonregulated investments shall include the investment in nonregulated activities that are conducted through the same legal entity as the telephone company operations, but do not involve the joint or common use of assets or resources in the provision of both regulated and nonregulated products and services. See §§ 32.14 and 32.23.

[52 FR 6561, Mar. 4, 1987]

**§ 32.103 Balance sheet accounts for other than regulated-fixed assets to be maintained.**

**BALANCE SHEET ACCOUNTS**

Account title	Class A account	Class B account
<b>Current Assets</b>		
Cash and equivalents:		
Cash and equivalents .....		1120
Cash .....	1130	
Special cash deposits .....	1140	
Working cash advances .....	1150	
Temporary investments .....	1160	
Receivables and allowances for doubtful accounts:		
Telecommunications accounts receivable .....	1180	1180
Accounts receivable allowance—telecommunications .....	1181	1181
Other accounts receivable .....	1190	1190
Accounts receivable allowance—other .....	1191	1191
Notes receivable .....	1200	1200
Notes receivable allowance .....	1201	1201
Interest and dividends receivable .....	1210	1210
Supplies:		
Material and supplies .....	1220	1220
Prepayments:		
Prepayments .....		1280
Prepaid rents .....	1290	
Prepaid taxes .....	1300	
Prepaid insurance .....	1310	
Prepaid directory expenses .....	1320	
Other prepayments .....	1330	
Other current assets:		
Other current assets .....	1350	1350
<b>Noncurrent Assets</b>		
Investments:		
Investment in affiliated companies .....	1401	1401
Investments in nonaffiliated companies .....	1402	1402
Nonregulated investments .....	1406	1406
Unamortized debt issuance expense .....	1407	1407
Sinking funds .....	1408	1408
Other noncurrent assets .....	1410	1410
Deferred charges:		
Deferred tax regulatory asset .....	1437	1437
Deferred maintenance and retirements .....	1438	1438
Deferred charges .....	1439	1439
Other:		
Other jurisdictional assets—net .....	1500	1500

[51 FR 43499, Dec. 2, 1986, as amended at 59 FR 9418, Feb. 28, 1994]

**§ 32.1120 Cash and equivalents.**

This account shall be used by Class B companies to record assets of the type required of Class A companies in Accounts 1130 through 1160.