

# FINANCIAL ACCOUNTING SERIES

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## EXPOSURE DRAFT

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### *Proposed Accounting Standards Update*

Issued: October 6, 2010

Comments Due: November 5, 2010

## **Business Combinations (Topic 805)**

### **Disclosure of Supplementary Pro Forma Information for Business Combinations**

#### **a consensus of the FASB Emerging Issues Task Force**

This Exposure Draft of a proposed Accounting Standards Update of Topic 805 is issued by the Board for public comment. Written comments should be addressed to:

Technical Director

File Reference No. EITF100G

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Financial Accounting Standards Board  
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification™* is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

### **Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update**

The Board invites individuals and organizations to send written comments on all matters in this Exposure Draft of a proposed Accounting Standards Update. Responses from those wishing to comment on the Exposure Draft must be received in writing by November 5, 2010. Interested parties should submit their comments by email to [director@fasb.org](mailto:director@fasb.org), File Reference No. EITF100G. Those without email should send their comments to "Technical Director, File Reference No. EITF100G, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116." Do not send responses by fax.

All comments received constitute part of the FASB's public file. The FASB will make all comments publicly available by posting them to its website and by making them available in its public reference room in Norwalk, Connecticut.

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**Financial Accounting Standards Board**  
of the Financial Accounting Foundation  
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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## **Summary and Questions for Respondents**

### **Why Is the FASB Issuing This Proposed Accounting Standards Update (Update)?**

The objective of this proposed Update is to address diversity in practice regarding the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations.

Paragraph 805-10-50-2(h) requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period.

In practice, some preparers have presented the pro forma information in their comparative financial statements as if the business combination that occurred in the current reporting period had occurred as of the beginning of each of the current and prior annual reporting periods. Other preparers have disclosed the pro forma information as if the business combination occurred at the beginning of the prior annual reporting period only, and carried forward the related adjustments, if applicable, through the current reporting period.

### **Who Would Be Affected by the Amendments in This Proposed Update?**

The amendments in this proposed Update would affect any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis.

### **What Are the Main Provisions?**

The amendments in this proposed Update specify that if a public entity presents comparative financial statements, the entity would disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only.

The amendments in this proposed Update also would expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination.

## **How Would the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Would They Be an Improvement?**

The amendments in this proposed Update would clarify the acquisition date that should be used for reporting the pro forma financial information disclosures in Topic 805 when comparative financial statements are presented. The amendments also would improve the usefulness of the pro forma revenue and earnings disclosures by requiring a description of the nature and amount of material, nonrecurring pro forma adjustments.

## **When Would the Amendments Be Effective?**

The amendments in this proposed Update would be effective prospectively for business combinations that are consummated on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption would be permitted.

## **How Do the Proposed Provisions Compare with International Financial Reporting Standards (IFRS)?**

IFRS 3, *Business Combinations*, permits, but does not require, pro forma disclosures for the comparative period. IFRS does not require a description of the nature and amount of material, nonrecurring pro forma adjustments.

## **Questions for Respondents**

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Do you agree that if comparative financial statements are presented, the acquisition date that should be used for reporting the

supplemental pro forma disclosure in Topic 805 should be only as of the beginning of the prior annual reporting period? If not, why not?

**Question 2:** Do you agree that the additional disclosure of a description of the nature and amount of material, nonrecurring pro forma adjustments will provide useful information? If not, why not?

**Question 3:** Do you agree that the amendments in this proposed Update should be applied prospectively, with early adoption permitted? If not, why not?

**Question 4:** Do you believe that the effective date provides enough time for financial statement preparers to effectively implement the proposed amendments? If not, why not?





# Amendments to the *FASB Accounting Standards Codification*<sup>TM</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–4. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 805-10

2. Amend paragraph 805-10-50-2, with a link to transition paragraph 805-10-65-2, as follows:

### Business Combinations—Overall

#### Disclosure

**805-10-50-2** To meet the objective in the preceding paragraph, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

- a. The name and a description of the **acquiree**
- b. The **acquisition date**
- c. The percentage of voting **equity interests** acquired
- d. The primary reasons for the business combination and a description of how the acquirer obtained **control** of the acquiree
- e. For transactions that are recognized separately from the acquisition of assets and assumptions of liabilities in the business combination (see paragraph 805-10-25-20), all of the following:
  1. A description of each transaction
  2. How the acquirer accounted for each transaction
  3. The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized
  4. If the transaction is the effective settlement of a preexisting relationship, the method used to determine the settlement amount.
- f. The disclosure of separately recognized transactions required in (e) shall include the amount of acquisition-related costs, the amount recognized as an expense, and the line item or items in the income

statement in which those expenses are recognized. The amount of any issuance costs not recognized as an expense and how they were recognized also shall be disclosed.

- g. In a business combination achieved in stages, all of the following:
  - 1. The acquisition-date **fair value** of the equity interest in the acquiree held by the acquirer immediately before the acquisition date
  - 2. The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer immediately before the business combination (see paragraph 805-10-25-10) and the line item in the income statement in which that gain or loss is recognized
  - 3. The valuation technique(s) used to measure the acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the business combination
  - 4. Information that enables users of the acquirer's financial statements to assess the inputs used to develop the fair value measurement of the equity interest in the acquiree held by the acquirer immediately before the business combination.
- h. If the acquirer is a **public business entity**, all of the following:
  - 1. The amounts of revenue and earnings of the acquiree since the acquisition date included in the consolidated income statement for the reporting period
  - 2. If comparative financial statements are not presented, the revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period (supplemental pro forma information)
  - 3. If comparative financial statements are presented, the revenue and earnings of the combined entity ~~for the comparable prior reporting period as though the business combination(s) acquisition date for all business combinations~~ that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period (supplemental pro forma ~~information~~ information).
  - 4. The nature and amount of any material, nonrecurring adjustments directly attributable to the business combination(s) included in the reported pro forma revenue and earnings (supplemental pro forma information).

If disclosure of any of the information required by (h) is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. In this context, the term *impracticable* has the same meaning as in paragraph 250-10-45-9.

3. Add paragraph 805-10-65-2 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2010-XX,  
Business Combinations (Topic 805): Disclosure of Supplementary Pro  
Forma Information for Business Combinations**

**805-10-65-2** The following represents the transition and effective date information related to Accounting Standards Update No. 2010-XX, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combination*:

- a. The pending content that links to this paragraph shall be applied prospectively for business combinations that are consummated on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.
- b. Earlier application is permitted.

## Amendments to Subtopic 958-805

4. Amend paragraphs 958-805-50-8 through 50-9, with a link to transition paragraph 805-10-65-2, as follows:

### Not-for-Profit Entities—Business Combinations

#### Disclosure

##### Acquisition by a Not-for-Profit Entity

**958-805-50-7** To meet the objective in the paragraph 805-10-50-1, an NFP acquirer shall disclose the information required by paragraph 805-10-50-2(a) through (g).

**958-805-50-8** Instead of disclosing the information in paragraph 805-10-50-2(h), an NFP acquirer that is a **public entity** shall disclose all of the following information for each acquisition that occurs during the reporting period:

- a. Revenues attributable to the acquiree since the **acquisition date** that are included in the statement of activities for the reporting period
- b. Changes in **unrestricted net assets**, changes in **temporarily restricted net assets**, and changes in **permanently restricted net assets** attributable to the **acquiree** since the acquisition date that are included in the statement of activities for the reporting period
- c. The revenues of the combined entity as though the acquisition date for all acquisitions that occurred during the current year had been at the

- beginning of the annual reporting period (supplemental pro forma information)
- d. Changes in unrestricted net assets, changes in temporarily restricted net assets, and changes in permanently restricted net assets as though the acquisition date for all acquisitions that occurred during the current year had been at the beginning of the annual reporting period (supplemental pro forma ~~information~~information).
  - e. The nature and amount of any material, nonrecurring adjustments directly attributable to the acquisition(s) included in the reported pro forma revenues and earnings (supplemental pro forma information).

**958-805-50-9** If it presents comparative financial information, an NFP acquirer that is a public entity shall disclose the supplemental pro forma information required by the preceding paragraph ~~for the comparable prior reporting period as though the acquisition(s) acquisition date for all acquisitions~~ that occurred during the current year period had been occurred as of the beginning of the comparable prior annual reporting period.

**958-805-50-10** If the disclosure of any of the information required by paragraphs 958-805-50-8 through 50-9 is impracticable, the NFP acquirer shall disclose that fact and explain why the disclosure is impracticable. The term *impracticable* has the same meaning as *impracticability* in paragraph 250-10-45-9.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the five members of the Financial Accounting Standards Board:*

Robert H. Herz, *Chairman*  
Thomas J. Linsmeier  
Leslie F. Seidman  
Marc A. Siegel  
Lawrence W. Smith

## Background Information and Basis for Conclusions

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BC1. The following summarizes the Task Force's considerations in reaching the conclusions in this proposed Update. It includes the Board's basis for ratifying the Task Force conclusions when needed to supplement the Task Force's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual Task Force and Board members gave greater weight to some factors than to others.

BC2. Topic 805 requires a public entity to disclose pro forma information for business combinations that occurred during the current reporting period as if the acquisition date for all business combinations occurred at the beginning of the current annual reporting period. If the reporting entity is presenting comparative financial statements, pro forma information is required as if the business combination occurred at the beginning of the comparable prior annual reporting period. In practice, some preparers have presented the pro forma information in their comparative financial statements as if the business combination that occurred in the current reporting period occurred as of the beginning of each of the current and prior annual reporting periods. Other preparers have disclosed the pro forma information as if the business combination occurred at the beginning of the prior annual reporting period only, and carried forward the related adjustments, if applicable, through the current reporting period.

BC3. The Task Force discussed what acquisition date should be used for business combinations included in the pro forma disclosure when comparative financial information is presented. The Task Force concluded that a public entity should present the pro forma revenue and earnings as if the business combination occurred at the beginning of the comparable prior annual reporting period for purposes of presenting pro forma information for both the current period and the comparable prior reporting period. During its discussions, the Task Force noted that this approach is consistent with the acquisition date to be used with the Securities and Exchange Commission's Form 8-K pro forma disclosure requirements under Article 11 of Regulation S-X.

BC4. The Task Force decided to expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination. The Task Force noted that this information would assist users in understanding the pro forma financial information presented.

BC5. The Task Force considered input received from investors about what disclosures would be most useful for their purposes. Investor feedback indicated that they did not feel strongly about either of the disclosure methods currently being applied but that they also would prefer to have the disclosure requirements

expanded to conform in some, or all respects, to the SEC's requirements under Article 11. The Task Force decided not to pursue additional enhancements to the existing pro forma disclosure requirements under Topic 805 because these matters already had been deliberated by the Board in connection with FASB Statements No. 141, *Business Combinations*, and No. 141 (revised 2007), *Business Combinations*, and the Board decided against further expansion of the disclosure requirements.

BC6. The proposed amendments would be effective for business combinations that are consummated on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

BC7. The Task Force decided to require prospective application of the proposed amendments with early adoption permitted.

## Benefits and Costs

BC8. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Task Force's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC9. The Task Force does not anticipate that entities will incur significant costs as a result of the amendments in this proposed Update. The Task Force concluded that the information required to comply with the amendments generally should be available to entities.

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## Amendments to the XBRL Taxonomy

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The following elements or modifications to existing elements are proposed additions to the XBRL U.S. GAAP Financial Reporting Taxonomy. They reflect the amendments to the disclosure and presentation requirements of the Accounting Standards Codification and would be used in association (tagged) with the appropriate reported values in the SEC filer XBRL exhibit. Elements that currently exist in the 2009 Taxonomy are marked with an asterisk\* and have been **bolded**. If an existing element was modified, it has been marked to reflect any changes.

Individuals and organizations commenting on the amendments in this proposed Update should consider the usefulness, appropriateness, and completeness of these elements for entities required to include an XBRL exhibit with their SEC filings. Respondents also should consider the context of the elements in the current XBRL U.S. GAAP Financial Reporting Taxonomy.

Standard Label <sup>†</sup>	Definition	Codification Reference
Business Acquisition, Pro Forma Information, Nonrecurring Adjustments [Table Text Block]	This element encapsulates the disclosures related to the nature and amount of any material, nonrecurring adjustments directly attributable to the business combination(s) included in the reported pro forma revenue and earnings (supplemental pro forma information).	805-10-50-2(h)(4) 958-805-50-8(e)
Business Acquisition, Pro Forma Information, Nonrecurring Adjustments [Table]	Schedule detailing the nature and amount of any material, nonrecurring adjustments directly attributable to the business combination(s) included in the reported pro forma revenue and earnings (supplemental pro forma information).	805-10-50-2(h)(4) 958-805-50-8(e)
Information by Nonrecurring Adjustment [Axis]	Qualitative and quantitative information by material, nonrecurring adjustment directly attributable to the business combination(s) included in	805-10-50-2(h)(4) 958-805-50-8(e)

<sup>†</sup>The Standard Label and the Element Name are the same (except that the Element Name does not include spaces). If they are different, the Element Name is shown in *italics* after the Standard Label.

<b>Standard Label<sup>†</sup></b>	<b>Definition</b>	<b>Codification Reference</b>
	the reported pro forma revenue and earnings (supplemental pro forma information).	
Business Acquisition, Pro Forma Information, Nonrecurring Adjustments [Member]	Represents material, nonrecurring adjustment(s) included in the reported pro forma revenue and earnings (supplemental pro forma information).	805-10-50-2(h)(4) 958-805-50-8(e)
Business Acquisition, Pro Forma Information, Nonrecurring Adjustments [Line Items]	Line items represent financial concepts included in a table. These concepts are used to disclose reportable information associated with members defined in one or many axes to the table.	805-10-50-2(h)(4) 958-805-50-8(e)
<b>Business Acquisition, Pro Forma Information, Description*</b>	Description of the pro forma information, nature of adjustments made to historical information to arrive at pro forma amounts, amounts excluded from pro forma information, any material-nonrecurring items included in the pro forma information and limitations of pro forma disclosures.	805-10-50-2(h)( <del>2-3</del> )(4)