FASB EXPOSURE DRAFT

Proposed Accounting Standards Update

Issued: July 15, 2014
Comments Due: September 30, 2014

Income Statement—Extraordinary and Unusual Items (Subtopic 225-20)

Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items

This Exposure Draft of a proposed Accounting Standards Update of Subtopic 225-20 is issued by the Board for public comment. Comments can be provided using the electronic feedback form available on the FASB website. Written comments should be addressed to:

Technical Director
File Reference No. 2014-220

Financial Accounting Standards Board

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 comments on all matters in this Exposure Draft and is requesting comments by September 30, 2014. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at Exposure Documents Open for Comment
- Emailing a written letter to director@fasb.org, File Reference No. 2014-220
- Sending written comments to "Technical Director, File Reference No. 2014-220, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116."

Do not send responses by fax.

All comments received are part of the FASB's public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

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FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Proposed Accounting Standards Update

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Summary and Questions for Respondents

Why Is the FASB Issuing This Proposed Accounting Standards Update and What Are the Main Provisions?

The Board is issuing this proposed Update as part of a Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of the financial statements.

The Board proposes to eliminate from GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement—Extraordinary and Unusual Items, currently requires that an entity separately classify, present, and disclose extraordinary events and transactions. Today, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. Paragraph 225-20-45-2 contains the following criteria that both must be met for extraordinary classification:

1. Unusual nature. The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates.
2. Infrequency of occurrence. The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates.

If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item.

The Board has heard from stakeholders that the concept of extraordinary items causes uncertainty because it is unclear when an item should be considered both unusual and infrequent. Additionally, some stakeholders have said that while users find information about unusual or infrequent events and transactions useful, they do not find the extraordinary item classification and presentation necessary to identify those events and transactions. Other stakeholders have noted that it is extremely rare in current practice for a transaction or event to meet the requirements to be presented as an extraordinary item.

Eliminating the concept of extraordinary items would save time and reduce costs for preparers because they would not have to assess whether a particular event or transaction event is extraordinary (even if they would ultimately conclude it is not). This also alleviates uncertainty for preparers, auditors, and regulators because auditors and regulators no longer would need to evaluate whether a preparer presented an unusual and/or infrequent item appropriately.

The Board believes that the proposed Update will not result in a loss of information because while the amendments would eliminate the requirements in Subtopic 225-20 for reporting entities to consider whether an underlying event or transaction is extraordinary, the presentation and disclosure guidance for items that are unusual in nature or infrequently occurring would be retained.

The proposed Update would align more closely GAAP income statement presentation guidance with IAS 1, *Presentation of Financial Statements,* which prohibits the presentation and disclosure of extraordinary items.

What Are the Transition Requirements and When Would the Amendments Be Effective?

The Board expects that the proposed Update would be applied prospectively for extraordinary items in annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption would be permitted. At transition an entity would be required only to disclose, if applicable, that an item included in income from continuing operations after adoption of this Update relates to an adjustment of an item previously separately classified and presented as an extraordinary item before the date of adoption.

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: Should the concept of extraordinary items be eliminated from GAAP? If not, why not?

Question 2: Should the proposed Update be applied prospectively to extraordinary items occurring after the date of adoption?

Question 3: Should the proposed Update be effective in annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted? Should there be a delay in the effective date for entities other than public business entities and why?

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–37. In some cases, amendments are summarized in tables. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Supersede the Master Glossary term *Extraordinary Items*, with a link to transition paragraph 225-20-65-1, as follows:

~~**Extraordinary Items**~~

~~Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Thus, both of the following criteria should be met to classify an event or transaction as an extraordinary item:~~

~~a. Unusual nature. The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates (see paragraph 225-20-60-3).~~
~~b. Infrequency of occurrence. The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates (see paragraph 225-20-60-3).~~

3. Amend the following Master Glossary terms, with a link to transition paragraph 225-20-65-1, as follows:

Deferred Tax Expense (or Benefit)

The change during the year in an entity's deferred tax liabilities and assets. For deferred tax liabilities and assets acquired in a purchase business combination during the year, it is the change since the combination date. Income tax expense (or benefit) for the year is allocated among continuing operations, discontinued operations~~, extraordinary items~~, and items charged or credited directly to shareholders' equity.

Income from Continuing Operations

Income after applicable income taxes but excluding the results of discontinued operations~~, extraordinary items~~, the cumulative effect of accounting changes, translation adjustments, purchasing power gains and losses on monetary items, and increases and decreases in the current cost or lower recoverable amount of nonmonetary assets and liabilities.

Infrequency of Occurrence

The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates (see paragraph 225-20-60-3).~~See Extraordinary Items.~~

Ordinary Income (or Loss)

Ordinary income (or loss) refers to income (or loss) from continuing operations before income taxes (or benefits) excluding significant unusual or infrequently occurring items. ~~Extraordinary items, discontinued operations,~~Discontinued operations and cumulative effects of changes in accounting principles are also excluded from this term. The term is not used in the income tax context of ordinary income versus capital gain. The meaning of unusual or infrequently occurring items is consistent with their use in the ~~definition~~ definitions of the ~~term~~ terms ~~extraordinary item~~ unusual nature and infrequency of occurrence.

Unusual Nature

The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates (see paragraph 225-20-60-3).~~See Extraordinary Items.~~

Amendments to Subtopic 225-10

4. Amend paragraphs 225-10-05-1 and 225-10-05-4, with a link to transition paragraph 225-20-65-1, as follows:

Income Statement—Overall

Overview and Background

225-10-05-1 The Income Statement Topic includes the following Subtopics:

a. Overall
b. ~~Extraordinary and~~ Unusual or Infrequently Occurring Items
c. Business Interruption Insurance.

225-10-05-4 Subtopic 225-20 provides guidance about the ~~classification and resulting presentation and disclosure of extraordinary events and transactions. It also addresses the~~ presentation and disclosure of unusual ~~and~~ <u>or</u> infrequently occurring items~~ that do not meet the extraordinary criteria~~.

Amendments to Subtopic 225-20

5. Amend the title of Subtopic 225-20 and add the General Note as follows:

Income Statement—~~Extraordinary and~~ Unusual <u>or Infrequently Occurring</u> Items

<u>**General Note on Income Statement—Extraordinary and Unusual Items:** Upon the effective date of Accounting Standards Update 2014-XX, the title of this Subtopic will change to Income Statement—Unusual or Infrequently Occurring Items.</u>

6. Supersede paragraphs 225-20-15-2 and 225-20-45-1 through 45-15 and their related headings and amend paragraph 225-20-45-16, with a link to transition paragraph 225-20-65-1, as follows:

Scope and Scope Exceptions

~~**> Transactions**~~

225-20-15-2 <u>Paragraph superseded by Accounting Standards Update 2014-XX.</u>~~The net effect of discontinuing the application of regulatory operations accounting addressed in Section 980-20-40 shall be recognized as an **extraordinary item** and thus shall be subject to the scope of this Subtopic regardless of whether the criteria discussed in paragraph 225-20-45-2 are met.~~

~~a. Subparagraph not used~~
~~b. Subparagraph not used~~

Other Presentation Matters

~~**> Extraordinary Items**~~

~~**> > Criteria for Presentation as Extraordinary Items**~~

225-20-45-1 <u>Paragraph superseded by Accounting Standards Update 2014-XX.</u>~~Judgment is required to segregate in the income statement the effects of events or transactions that are **extraordinary items** (as required by paragraphs 225-20-45-10 through 45-11). An event or transaction shall be presumed to be an ordinary and usual activity of the reporting entity, the effects of which shall be~~

~~included in income from operations, unless the evidence clearly supports its classification as an extraordinary item as defined in this Subtopic.~~

225-20-45-2 Paragraph superseded by Accounting Standards Update 2014-XX.~~Extraordinary items are events and transactions that are distinguished by their **unusual nature** and by the infrequency of their occurrence. Thus, both of the following criteria shall be met to classify an event or transaction as an extraordinary item:~~

- ~~a. Unusual nature. The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity, taking into account the environment in which the entity operates (see paragraph 225-20-55-1).~~
- ~~b. **Infrequency of occurrence**. The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the entity operates (see paragraph 225-20-55-2).~~

225-20-45-3 Paragraph superseded by Accounting Standards Update 2014-XX.~~The effect of an extraordinary event or transaction shall be classified separately in the income statement in the manner described in paragraphs 225-20-45-10 through 45-11 if it is material in relation to income before extraordinary items or to the trend of annual earnings before extraordinary items, or is material by other appropriate criteria. Items shall be considered individually and not in the aggregate in determining whether an extraordinary event or transaction is material. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action that otherwise meets the two criteria in the preceding paragraph shall be aggregated to determine materiality.~~

225-20-45-4 Paragraph superseded by Accounting Standards Update 2014-XX.~~Certain gains and losses shall not be reported as extraordinary items (except as indicated in the following paragraph) because they are usual in nature or may be expected to recur as a consequence of customary and continuing business activities. Examples include all of the following:~~

- ~~a. Write-down or write-off of receivables, inventories, equipment leased to others, deferred research and development costs, or other intangible assets~~
- ~~b. Gains or losses from exchange or translation of foreign currencies, including those relating to major devaluations and revaluations~~
- ~~c. Gains or losses on disposal of a component of an entity~~
- ~~d. Other gains or losses from sale or abandonment of property, plant, or equipment used in the business~~
- ~~e. Effects of a strike, including those against competitors and major suppliers~~
- ~~f. Adjustment of accruals on long-term contracts.~~

225-20-45-5 Paragraph superseded by Accounting Standards Update 2014-XX.~~In rare situations, an event or transaction may occur that clearly meets both criteria specified in paragraph 225-20-45-2 and thus gives rise to an extraordinary gain or loss that includes one or more of the gains or losses enumerated in the preceding paragraph. In these circumstances, gains or losses such as those in (a) and (d) of the preceding paragraph shall be included in the extraordinary item if they are a direct result of a major casualty (such as an earthquake), an expropriation, or a prohibition under a newly enacted law or regulation that clearly meets both criteria specified in paragraph 225-20-45-2. However, any portion of such losses which would have resulted from a valuation of assets on a going concern basis shall not be included in the extraordinary items.~~

225-20-45-6 Paragraph superseded by Accounting Standards Update 2014-XX.~~Disposals of a component of an entity shall be accounted for and presented in the income statement in accordance with Subtopic 205-20 even though the circumstances of the disposal meet the criteria specified in paragraph 225-20-45-2.~~

225-20-45-7 Paragraph superseded by Accounting Standards Update 2014-XX.~~See paragraph 225-20-55-4 for examples of events or transactions that do not meet both of the extraordinary item criteria of paragraph 225-20-45-2.~~

~~**> > > Criteria Exceptions**~~

225-20-45-8 Paragraph superseded by Accounting Standards Update 2014-XX.~~As indicated in paragraph 225-20-15-2, the net effect of discontinuing the application of regulatory operations accounting addressed in Section 980-20-40 shall be recognized as an extraordinary item regardless of whether the criteria in paragraph 225-20-45-2 are met.~~

- ~~a. Subparagraph not used~~
- ~~b. Subparagraph not used~~

~~**> > Presentation of Extraordinary Items**~~

225-20-45-9 Paragraph superseded by Accounting Standards Update 2014-XX.~~Extraordinary items shall be segregated from the results of ordinary operations and shown separately in the income statement, with disclosure of the nature and amounts thereof.~~

225-20-45-10 Paragraph superseded by Accounting Standards Update 2014-XX.~~In the absence of discontinued operations (see paragraphs 205-20-45-1 through 45-5, which address the reporting of discontinued operations), the following main captions shall appear in an income statement if extraordinary items are reported.~~

~~Income before extraordinary items~~	~~$XXX~~
~~Extraordinary items (less applicable income taxes $___) (Note___)~~	~~XXX~~
~~Net income~~	~~$XXX~~

225-20-45-11 Paragraph superseded by Accounting Standards Update 2014-XX.~~The caption extraordinary items shall be used to identify separately the effects of events and transactions, other than the disposal of a component of an entity, that meet the criteria for classification as extraordinary as discussed in paragraphs 225-20-45-1 through 45-6. Descriptive captions and the amounts for individual extraordinary events or transactions shall be presented, preferably on the face of the income statement, if practicable; otherwise disclosure in related notes is acceptable. The nature of an extraordinary event or transaction and the principal items entering into the determination of an extraordinary gain or loss shall be described. The income taxes applicable to extraordinary items shall be disclosed on the face of the income statement; alternatively, disclosure in the related notes is acceptable. The caption net income shall replace the three captions shown in the preceding paragraph if the income statement includes no extraordinary items.~~

225-20-45-12 Paragraph superseded by Accounting Standards Update 2014-XX.~~Earnings per share (EPS) data for extraordinary items shall be presented either on the face of the income statement or in the related notes, as prescribed by Section 260-10-45.~~

~~> > Adjustment of Amounts Reported in Prior Periods~~

225-20-45-13 Paragraph superseded by Accounting Standards Update 2014-XX.~~Circumstances attendant to extraordinary items frequently require estimates, for example, of associated costs and occasionally of associated revenue, based on judgment and evaluation of the facts known at the time of first accounting for the event. Each adjustment in the current period of an element of an extraordinary item that was reported in a prior period shall be classified separately in the current period in the same manner as the original item.~~

225-20-45-14 Paragraph superseded by Accounting Standards Update 2014-XX.~~If the adjustment is the correction of an error, the provisions of paragraphs 250-10-45-23 and 250-10-50-7 shall be applied.~~

~~> > Guidance Contained in Other Topics~~

225-20-45-15 Paragraph superseded by Accounting Standards Update 2014-XX.~~The following is a list of other locations in the Codification containing additional guidance related to the determination as to whether certain specific items should be classified as an extraordinary transaction or event. This list may not be all-inclusive:~~

~~a. See paragraph 470-50-45-1 for guidance relating to debt.~~
~~b. See paragraph 740-270-45-5 for guidance relating to income taxes.~~
~~c. See paragraph 270-10-50-5 for guidance relating to interim reporting.~~
~~d. See paragraphs 715-30-55-191 through 55-192 for guidance relating to retirement benefits.~~
~~e. See paragraph 225-20-55-4 for guidance relating to property, plant, and equipment.~~
~~f. See paragraphs 410-30-45-3 and 410-30-45-6 for guidance relating to environmental obligations.~~
~~g. See paragraph 980-20-40-2 for guidance on the discontinuation of rate-regulated accounting by regulated operations.~~
~~h. See paragraph 930-715-45-1 for guidance on compensation-related costs for the mining industry.~~
~~i. [Not used]~~
~~j. See paragraph 225-30-45-1 for guidance relating to **business interruption insurance**.~~

> Presentation of Unusual or Infrequently Occurring Items

225-20-45-16 A material event or transaction that ~~is unusual in nature or occurs infrequently but not both, and therefore does not meet both criteria for classification as an extraordinary item,~~ <u>an entity considers to be either of an **unusual nature** or of a type that indicates **infrequency of occurrence**</u> shall be reported as a separate component of income from continuing operations. The nature and financial effects of each event or transaction shall be disclosed on the face of the income statement or, alternatively, in notes to financial statements. Gains or losses of a similar nature that are not individually material shall be aggregated. Such items shall not be reported on the face of the income statement net of income taxes~~ or in any other manner that may imply that they are extraordinary items~~. Similarly, the EPS effects of those items shall not be presented on the face of the income statement.

7. Supersede paragraphs 225-20-50-1 through 50-2 and 225-20-50-4 and their related headings and amend paragraph 225-20-50-3, with a link to transition paragraph 225-20-65-1, as follows:

Disclosure

~~**> Extraordinary Items**~~

225-20-50-1 <u>Paragraph superseded by Accounting Standards Update 2014-XX.</u>~~See paragraphs 225-20-45-10 through 45-11 for guidance for either disclosure or presentation on the face of the financial statements.~~

225-20-50-2 <u>Paragraph superseded by Accounting Standards Update 2014-XX.</u>~~As indicated in paragraph 225-20-45-13, circumstances attendant to **extraordinary items** frequently require estimates, for example, of associated~~

~~costs and occasionally of associated revenue, based on judgment and evaluation of the facts known at the time of first accounting for the event. Each adjustment in the current period of an element of an extraordinary item that was reported in a prior period shall be separately disclosed as to year of origin, nature, and amount.~~

> Unusual or Infrequently Occurring Items

225-20-50-3 The nature and financial effects of each event or transaction that is unusual in nature or occurs infrequently~~, but not both,~~ shall be disclosed ~~on the face of the income statement~~ as a separate component of income from continuing operations or, alternatively, in notes to the financial statements.

~~**> Interim Reporting**~~

225-20-50-4 Paragraph superseded by Accounting Standards Update 2014-XX.~~As indicated in paragraph 270-10-50-5, extraordinary items shall be disclosed separately and included in the determination of net income for the interim period in which they occur. That paragraph establishes that in determining materiality, extraordinary items shall be related to the estimated income for the full fiscal year. Paragraph 270-10-45-11A requires that extraordinary items, gains or losses from disposal of a component of an entity, and unusual or infrequently occurring items not be pro-rated over the balance of the fiscal year.~~

8. Amend paragraph 225-20-55-2 and supersede paragraphs 225-20-55-3 through 55-4 and their related headings, with a link to transition paragraph 225-20-65-1, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > Infrequency of Occurrence

225-20-55-2 For purposes of this Subtopic, an event or transaction of a type not reasonably expected to recur in the foreseeable future is considered to occur infrequently. Determining the probability of recurrence of a particular event or transaction in the foreseeable future should take into account the environment in which an entity operates. Accordingly, a specific transaction of one entity might meet that criterion and a similar transaction of another entity might not because of different probabilities of recurrence. The past occurrence of an event or transaction for a particular entity provides evidence to assess the probability of recurrence of that type of event or transaction in the foreseeable future. ~~By definition, **extraordinary items** occur infrequently. However, mere **infrequency of occurrence** of a particular event or transaction does not alone imply that its effects should be classified as extraordinary. An event or transaction of a type~~

~~that occurs frequently in the environment in which the entity operates cannot, by definition, be considered as extraordinary, regardless of its financial effect.~~

~~**> > Events or Transactions Meeting Extraordinary Item Criteria**~~

225-20-55-3 Paragraph superseded by Accounting Standards Update 2014-XX.~~The following are illustrative of events or transactions which would meet both criteria in the circumstances described and should be reported as extraordinary items~~:

~~a. A large portion of a tobacco manufacturer's crops are destroyed by a hail storm. Severe damage from hail storms in the locality where the manufacturer grows tobacco is rare.~~
~~b. A steel fabricating entity sells the only land it owns. The land was acquired 10 years ago for future expansion, but shortly thereafter the entity abandoned all plans for expansion and held the land for appreciation.~~
~~c. An earthquake destroys one of the oil refineries owned by a large multinational oil entity.~~

~~**> > Events or Transactions That Do Not Meet Extraordinary Item Criteria**~~

225-20-55-4 Paragraph superseded by Accounting Standards Update 2014-XX.~~The following are illustrative of events or transactions which do not meet both criteria in the circumstances described and thus should not be reported as extraordinary items:~~

~~a. A citrus grower's Florida crop is damaged by frost. Frost damage is normally experienced every three or four years. The criterion of infrequency of occurrence taking into account the environment in which the entity operates would not be met since the history of losses caused by frost damage provides evidence that such damage may reasonably be expected to recur in the foreseeable future.~~
~~b. An entity that operates a chain of warehouses sells the excess land surrounding one of its warehouses. When the entity buys property to establish a new warehouse, it usually buys more land than it expects to use for the warehouse with the expectation that the land will appreciate in value. In the past five years, there have been two instances in which the entity sold such excess land. The criterion of infrequency of occurrence has not been met since past experience indicates that such sales may reasonably be expected to recur in the foreseeable future.~~
~~c. A large diversified entity sells a block of shares from its portfolio of securities which it has acquired for investment purposes. This is the first sale from its portfolio of securities. Since the entity owns several securities for investment purposes, it should be concluded that sales of such securities are related to its ordinary and typical activities in the environment in which it operates and thus the criterion of unusual nature would not be met.~~

d. ~~A textile manufacturer with only one plant moves to another location. It has not relocated a plant in 20 years and has no plans to do so in the foreseeable future. Notwithstanding the infrequency of occurrence of the event as it relates to this particular entity, moving from one location to another is an occurrence which is a consequence of customary and continuing business activities, some of which are finding more favorable labor markets, more modern facilities, and proximity to customers or suppliers. Therefore, the criterion of unusual nature has not been met and the moving expenses (and related gains and losses) should not be reported as an extraordinary item.~~

e. ~~A consequence of customary and typical business activities (namely financing) is an unsuccessful public registration, the cost of which should not be reported as an extraordinary item. (For additional examples, see paragraph 225-20-45-4.)~~

f. ~~An impairment loss does not have characteristics that warrant special treatment, for instance, as an extraordinary item.~~

g. ~~Entities holding receivables from bankrupt railroads shall not account for losses arising from charging off such assets as extraordinary losses in determining net income. Paragraph 225-20-45-4 specifies that losses from receivables shall not constitute extraordinary losses. The fact that the loss arises from a receivable from an entity in bankruptcy proceedings does not alter this.~~

h. ~~The costs incurred by an entity to defend itself from a takeover attempt or the cost attributed to a standstill agreement do not meet the criteria for extraordinary classification as discussed in paragraph 225-20-45-2. The event that gave rise to those costs—a takeover attempt—cannot be considered to be both unusual and infrequent as those terms are used in this Subtopic.~~

9. Supersede paragraph 225-20-60-1 and its related heading, and paragraph 225-20-60-2, and amend paragraph 225-20-60-3, with a link to transition paragraph 225-20-65-1, as follows:

Relationships

~~**> Investments—Equity Method and Joint Ventures**~~

225-20-60-1 Paragraph superseded by Accounting Standards Update 2014-XX.~~For guidance on an investor's treatment of investee **extraordinary items**, see paragraph 323-10-45-1.~~

> Income Taxes

225-20-60-2 Paragraph superseded by Accounting Standards Update 2014-XX.~~For guidance on the allocation of income tax expense or benefit for extraordinary items, see paragraphs 740-10-55-38 and 740-20-45-1 through 45-7.~~

225-20-60-3 For guidance on the computation of interim period income taxes applicable to significant unusual or infrequently occurring items~~, and extraordinary items~~, see paragraphs 740-270-30-8 through 30-12.

10. Add paragraph 225-20-65-1 and its related heading, as follows:

> Transition Related to Accounting Standards Update No. 2014-XX, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*

225-20-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2014-XX, *Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*:

a. The pending content that links to this paragraph shall be effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted.
b. An entity shall apply the pending content that links to this paragraph prospectively to events or transactions occurring after the date of adoption as well as to any items included in income from continuing operations after adoption that relate to an adjustment of an item previously separately classified and presented as an extraordinary item before adoption.
c. An entity shall disclose, if applicable, that an item included in income from continuing operations after adoption relates to an adjustment of an item previously separately classified and presented as an extraordinary item before the date of adoption.

Amendments to Subtopic 270-10

11. Amend paragraph 270-10-45-11A and its related heading, with no link to a transition paragraph, as follows:

Interim Reporting—Overall

Other Presentation Matters

> ~~Extraordinary Items,~~ Unusual and Infrequent ~~Items,~~ Items and Disposals of Components

270-10-45-11A Effects of disposals of a component of an entity and unusual ~~and~~ or 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~~ shall be reported separately. ~~Extraordinary items, gains~~Gains or losses from disposal of a component of an ~~entity,~~ entity and unusual or infrequently occurring items shall not be prorated over the balance of the fiscal year.

12. Amend paragraph 270-10-50-5 and its related heading, with no link to a transition paragraph, as follows:

Disclosure

> ~~Extraordinary Items,~~ Unusual and Infrequent ~~Items,~~ Items and Disposals of Components

270-10-50-5 ~~Extraordinary items shall be disclosed separately and included in the determination of net income for the interim period in which they occur. In determining materiality, extraordinary items shall be related to the estimated income for the full fiscal year. In addition, matters~~Matters such as unusual seasonal results, business combinations, and **acquisitions by not-for-profit entities** shall be disclosed to provide information needed for a proper understanding of interim financial reports.

Amendments to Subtopic 323-10

13. Amend paragraphs 323-10-45-1 through 45-2, with a link to transition paragraph 225-20-65-1, as follows:

Investments—Equity Method and Joint Ventures—Overall

Other Presentation Matters

> The Equity Method—Overall Guidance

323-10-45-1 Under the equity method, an investment in **common stock** shall be shown in the balance sheet of an **investor** as a single amount. Likewise, an investor's share of earnings or losses from its investment shall be shown in its income statement as a single amount~~, except for the extraordinary items as specified in the following paragraph~~.

323-10-45-2 The investor's share of~~ extraordinary items and its share of~~ accounting changes reported in the financial statements of the **investee** shall be classified separately~~ in accordance with Subtopic 225-20~~.

Amendments to Subtopic 420-10

14. Amend paragraph 420-10-45-3, with no link to a transition paragraph, as follows:

Exit or Disposal Cost Obligations—Overall

Other Presentation Matters

> Income from Continuing Operations

420-10-45-3 Costs associated with an exit or disposal activity that does not involve a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity and in income from continuing operations in the statement of activities of a not-for-profit entity (NFP). Separate presentation of exit and disposal costs in the income statement is not prohibited. ~~However, because neither an exit activity nor a disposal activity is both unusual and infrequent (see paragraph 225-20-45-16), it is prohibited to present exit and disposal costs in the income statement net of income taxes or in any manner that implies they are similar to an extraordinary item, as defined in paragraphs 225-20-45-1 through 45-8. ~~If a subtotal such as income from operations is presented, it shall include the amounts of those costs.

Amendments to Subtopic 470-30

15. Supersede paragraph 470-30-45-3, with no link to a transition paragraph, as follows:

Debt—Participating Mortgage Loans

Other Presentation Matters

470-30-45-3 <u>Paragraph superseded by Accounting Standards Update 2014-XX.</u>~~However, the guidance in this Subtopic does not preclude gains or losses~~

~~from extinguishment of debt that meet the criteria of Topic 225 from being classified as extraordinary items.~~

Amendments to Subtopic 470-50

16. Supersede paragraphs 470-50-45-1 through 45-2, with no link to a transition paragraph, as follows:

Debt—Modifications and Extinguishments

Other Presentation Matters

470-50-45-1 Paragraph superseded by Accounting Standards Update 2014-XX.~~Gains and losses from extinguishment of debt that meet the criteria in Subtopic 225-20 are not precluded from being classified as extraordinary items.~~

470-50-45-2 Paragraph superseded by Accounting Standards Update 2014-XX.~~However, any charges to earnings resulting from application of paragraph 470-50-40-21(c) shall not be classified as extraordinary.~~

Amendments to Subtopic 715-20

17. Supersede paragraph 715-20-45-4 and its related heading, with a link to transition paragraph 225-20-65-1, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—General

Other Presentation Matters

~~**> Extraordinary Items**~~

715-20-45-4 Paragraph superseded by Accounting Standards Update 2014-XX.~~The determination of whether a gain or loss from a settlement or curtailment or the cost of termination benefits shall be classified as an extraordinary item requires judgment based on the facts and circumstances. Only if the criteria of paragraph 225-20-45-2 are met shall a gain or loss from a settlement or curtailment or the cost of termination benefits be classified as an extraordinary item. For many employers a gain or loss from a settlement or curtailment or the cost of termination benefits generally does not result from the type of unusual and infrequently occurring event or transaction required by paragraph 225-20-45-2 to be reported as an extraordinary item.~~

Amendments to Subtopic 715-30

18. Supersede paragraphs 715-30-55-191 through 55-192, with no link to a transition paragraph, as follows:

Compensation—Retirement Benefits—Defined Benefit Plans—Pension

Implementation Guidance and Illustrations

Settlements, Curtailments, and Certain Termination Benefits

> Implementation Guidance

715-30-55-191 Paragraph superseded by Accounting Standards Update 2014-XX.~~Subtopic 225-20 provides guidance on events and transactions that may result in treatment as extraordinary items in an entity's financial statements. The following different pension plan termination scenarios do not meet both the unusual nature and infrequency of occurrence criteria of that Subtopic, required for any resulting gain or loss to be classified as extraordinary:~~

- ~~a. An employer terminates its only pension plan and does not establish a successor pension plan.~~
- ~~b. An employer terminates its only pension plan, withdraws excess plan assets, and establishes a successor pension plan, but because of current regulatory guidelines is prohibited from effecting the same series of transactions for 15 years.~~
- ~~c. An employer terminates one of its foreign pension plans, withdraws excess plan assets, and establishes a successor pension plan. The employer has never effected this series of transactions in the past and has no intention of repeating those actions in the future.~~
- ~~d. An employer terminates an underfunded pension plan, and a regulatory agency takes over the pension plan and initiates a lien against 30 percent of the employer's net worth.~~

715-30-55-192 Paragraph superseded by Accounting Standards Update 2014-XX.~~Paragraph 225-20-45-2 describes the unusual nature and infrequency of occurrence criteria that must be met for treatment as an extraordinary item. Notwithstanding the infrequency of occurrence of the event as it relates to a particular employer, terminating a pension plan is an occurrence that is a consequence of customary and continuing business activities. Terminations of pension plans occur frequently in the current economic environment. Therefore, the criterion of unusual nature is not met. Unless the pension plan termination is directly related to an event that qualifies as unusual in nature and infrequent in~~

~~occurrence, any resulting gain or loss would not qualify for classification as an extraordinary item.~~

Amendments to Subtopic 740-10

19. Amend paragraphs 740-10-30-22 and 740-10-30-26, with no link to a transition paragraph, as follows:

Income Taxes—Overall

Initial Measurement

740-10-30-22 Examples (not prerequisites) of positive evidence that might support a conclusion that a valuation allowance is not needed when there is negative evidence include, but are not limited to, the following:

a. Existing contracts or firm sales backlog that will produce more than enough taxable income to realize the deferred tax asset based on existing sales prices and cost structures
b. An excess of appreciated asset value over the tax basis of the entity's net assets in an amount sufficient to realize the deferred tax asset
c. A strong earnings history exclusive of the loss that created the future deductible amount (tax loss carryforward or deductible temporary difference) coupled with evidence indicating that the loss (for example, an ~~unusual,~~ unusual or infrequent~~, or extraordinary~~ item) is an aberration rather than a continuing condition.

> Tax Rates Applicable to Items Not Included in Income from Continuing Operations

740-10-30-26 The reported tax effect of items not included in income from continuing operations (for example, discontinued operations~~, extraordinary items~~, cumulative effects of changes in accounting principles, and items charged or credited directly to shareholders' equity) that arose during the current fiscal year and before the date of enactment of tax legislation shall be measured based on the enacted rate at the time the transaction was recognized for financial reporting purposes.

20. Amend paragraph 740-10-55-38, with no link to a transition paragraph, as follows:

Implementation Guidance and Illustrations

> > > > Reporting the Tax Benefit of Operating Loss Carryforwards or Carrybacks

740-10-55-38 Except as noted in paragraph 740-20-45-3, the manner of reporting the tax benefit of an operating loss carryforward or carryback is determined by the source of the income or loss in the current year and not by the source of the operating loss carryforward or taxes paid in a prior year or the source of expected future income that will result in realization of a deferred tax asset for an operating loss carryforward from the current year. **Deferred tax expense (or benefit)** that results because a change in circumstances causes a change in judgment about the future realization of the tax benefit of an operating loss carryforward is allocated to continuing operations (see paragraph 740-10-45-20). ~~Thus, for example:~~

a. Subparagraph superseded by Accounting Standards Update 2014-XX. ~~The tax benefit of an operating loss carryforward that resulted from an extraordinary loss in a prior year and that is first recognized in the financial statements for the current year:~~
   1. ~~Is allocated to continuing operations if it offsets the current or deferred tax consequences of income from continuing operations~~
   2. ~~Is allocated to an extraordinary gain if it offsets the current or deferred tax consequences of that extraordinary gain~~
   3. ~~Is allocated to continuing operations if it results from a change in circumstances that causes a change in judgment about future realization of a tax benefit.~~

b. Subparagraph superseded by Accounting Standards Update 2014-XX. ~~The current or deferred tax benefit of a loss from continuing operations in the current year is allocated to continuing operations regardless of whether that loss offsets the current or deferred tax consequences of an extraordinary gain that:~~
   1. ~~Occurred in the current year~~
   2. ~~Occurred in a prior year (that is, if realization of the tax benefit will be by carryback refund)~~
   3. ~~Is expected to occur in a future year.~~

Amendments to Subtopic 740-20

21. Amend paragraph 740-20-05-2, with a link to transition paragraph 225-20-65-1, as follows:

Income Taxes—Intraperiod Tax Allocation

Overview and Background

740-20-05-2 This Subtopic addresses the process of intraperiod tax allocation that allocates total income tax expense or benefit of an entity for a period to different components of comprehensive income and shareholders' equity. This includes allocating income tax expense or benefit for the year to:

a. Continuing operations
b. Discontinued operations
c. Subparagraph superseded by Accounting Standards Update 2014-XX.~~Extraordinary items~~
d. Other comprehensive income
e. Items charged or credited directly to shareholders' equity.

This Subtopic provides guidance on the method for making those allocations of total income tax expense or benefit and provides several examples and illustrations.

22. Amend paragraphs 740-20-45-2 and 740-20-45-7, with a link to transition paragraph 225-20-65-1, as follows:

Other Presentation Matters

740-20-45-2 Income tax expense or benefit for the year shall be allocated among:

a. Continuing operations
b. Discontinued operations
c. Subparagraph superseded by Accounting Standards Update 2014-XX.~~Extraordinary items~~
d. Other comprehensive income
e. Items charged or credited directly to shareholders' equity.

740-20-45-7 The tax effect of pretax income or loss from continuing operations generally should be determined by a computation that does not consider the tax effects of items that are not included in continuing operations. The exception to that incremental approach is that all items (for example,~~ extraordinary items,~~ discontinued operations, other comprehensive income, and so forth) be considered in determining the amount of tax benefit that results from a loss from continuing operations and that shall be allocated to continuing operations. That modification of the incremental approach is to be consistent with the approach in Subtopic 740-10 to consider the **tax consequences** of **taxable income** expected in future years in assessing the realizability of deferred tax assets. Application of this modification makes it appropriate to consider ~~an extraordinary~~

~~gain~~ a gain from discontinued operations in the current year for purposes of allocating a tax benefit to a current-year loss from continuing operations.

Amendments to Subtopic 740-30

23. Amend paragraphs 740-30-45-2 through 45-3, with no link to a transition paragraph, as follows:

Income Taxes—Other Considerations or Special Areas

Other Presentation Matters

740-30-45-2 Paragraph 740-30-25-18 identifies situations where deferred tax liabilities are not recorded for specific temporary differences. Paragraph 740-30-25-19 provides that if circumstances change and it becomes apparent that some or all of the undistributed earnings of a **subsidiary** will be remitted in the foreseeable future but income taxes have not been recognized by the parent entity, it shall accrue as an expense of the current period income taxes attributable to that remittance~~; income tax expense for such undistributed earnings shall not be accounted for as an extraordinary item~~. If it becomes apparent that some or all of the undistributed earnings of a subsidiary on which income taxes have been accrued will not be remitted in the foreseeable future, the parent entity shall adjust income tax expense of the current period~~; such adjustment of income tax expense shall not be accounted for as an extraordinary item~~.

740-30-45-3 If a parent entity did not recognize income taxes on its equity in undistributed earnings of a subsidiary for the reasons cited in paragraph 740-30-25-17 and the entity in which the investment is held ceases to be a subsidiary, paragraph 740-30-25-15 requires that it shall accrue as a current period expense income taxes on undistributed earnings in the period that it becomes apparent that any of those undistributed earnings prior to the change in status will be remitted~~; the accrual of those income taxes shall not be accounted for as an extraordinary item~~.

Amendments to Subtopic 740-270

24. Amend paragraph 740-270-05-4, with a link to transition paragraph 225-20-65-1, as follows:

Income Taxes—Interim Reporting

Overview and Background

740-270-05-4 This Subtopic describes:

a. The general computation of interim period income taxes (see paragraphs 740-270-30-1 through 30-9)
b. The application of the general computation to specific situations (see paragraphs 740-270-30-22 through 30-28)
c. The interim period income taxes requirements applicable to significant unusual or infrequently occurring ~~items,~~ items and discontinued operations~~, and extraordinary items~~ (see Section 740-270-45)
d. Special computations applicable to operations taxable in multiple jurisdictions (see paragraph 740-270-30-36)
e. Guidelines for reflecting the effects of new tax legislation in interim period income tax provisions (see paragraphs 740-270-25-5 through 25-6)
f. Disclosure requirements (see paragraph 740-270-50-1).

25. Amend paragraphs 740-270-25-12 through 25-14, with a link to transition paragraph 225-20-65-1, as follows:

Recognition

740-270-25-12 If an entity has a significant ~~unusual,~~ unusual or infrequently occurring~~, or extraordinary~~ loss or a loss from discontinued operations, the tax benefit of that loss shall be recognized when the tax benefit of the loss is expected to be either:

a. Realized during the year
b. Recognizable as a deferred tax asset at the end of the year in accordance with the provisions of Subtopic 740-10.

Realization would appear to be more likely than not if future **taxable income** from (ordinary) income during the current year is expected based on an established seasonal pattern of loss in early interim periods offset by income in later interim periods.

740-270-25-13 See Example 3, Cases A and B (paragraphs 740-270-55-26 through 55-28) for example computations involving ~~unusual,~~ unusual or infrequently occurring~~, or extraordinary~~ losses.

740-270-25-14 If recognition of a deferred tax asset at the end of the fiscal year for all or a portion of the tax benefit of the loss depends on taxable income from the reversal of existing taxable temporary differences, see paragraphs 740-270-

30-32 through 30-33 for guidance. If all or a part of the tax benefit is not realized and future realization is not more likely than not in the interim period of occurrence but becomes more likely than not in a subsequent interim period of the same fiscal year, the previously **unrecognized tax benefit** shall be reported that subsequent interim period in the same manner that it would have been reported if realization had been more likely than not in the interim period of occurrence, that is, as a tax benefit relating to continuing ~~operations,~~ operations or discontinued operations~~, or an extraordinary item~~. See Subtopic 740-20 for the requirements to allocate total income tax expense (or benefit).

26. Amend paragraphs 740-270-30-8 and 740-270-30-12, with a link to transition paragraph 225-20-65-1, as follows:

Initial Measurement

740-270-30-8 The estimated effective tax rate shall also reflect anticipated investment tax credits, foreign tax rates, percentage depletion, capital gains rates, and other available tax planning alternatives. However, in arriving at this estimated effective tax rate, no effect shall be included for the tax related to ~~significant~~ unusual or ~~extraordinary~~ infrequently occurring items that are significant and will be separately reported or reported net of their related tax effect in reports for the interim period or for the fiscal year. The rate so determined shall be used in providing for income taxes on a current year-to-date basis.

740-270-30-12 Taxes related to significant unusual or ~~extraordinary~~ infrequently occurring items that will be separately reported ~~or reported net of their related tax effect~~ also shall be excluded from the estimated annual effective tax rate calculation. ~~This description of significant unusual or extraordinary items includes unusual items, infrequently occurring items, discontinued operations, and extraordinary items.~~

27. Amend paragraphs 740-270-45-2 through 45-5, with a link to transition paragraph 225-20-65-1, as follows:

Other Presentation Matters

740-270-45-2 Section 740-20-45 describes the method of applying tax allocation within a period. The tax allocation computation shall be made using the estimated fiscal year ordinary income together with unusual items, infrequently occurring items, and discontinued operations~~, and extraordinary items~~ for the year-to-date period.

740-270-45-3 ~~Extraordinary items and discontinued~~Discontinued operations that will be presented net of related tax effects in the financial statements for the fiscal year shall be presented net of related tax effects in interim financial statements. Unusual or infrequently occurring items that will be separately disclosed in the financial statements for the fiscal year shall be separately disclosed as a component of pretax income from continuing operations, and the **tax (or benefit)** related to ~~such~~ <u>those</u> items shall be included in the tax (or benefit) related to continuing operations. See paragraphs 740-270-25-12 through 25-14 for interim period recognition guidance when an entity has a significant ~~unusual,~~ <u>unusual or</u> infrequently occurring~~, or extraordinary~~ loss or a loss from discontinued operations. See paragraphs 740-270-45-7 through 45-8 for the application of interim period allocation requirements to recognized income tax expense (or benefit) and discontinued operations. See Example 7 (paragraph 740-270-55-52) for an illustration of the income statement display of these items.

740-270-45-4 Paragraph 740-20-45-3 requires that the manner of reporting the tax benefit of an operating loss carryforward recognized in a subsequent year generally is determined by the source of the income in that year and not by the source of the operating loss carryforward or the source of expected future income that will result in realization of a **deferred tax asset** for the operating loss carryforward. The tax benefit is allocated first to reduce tax expense from continuing operations to zero with any excess allocated to the other source(s) of income that provides the means of realization, for example,~~ extraordinary items,~~ discontinued operations, <u>other comprehensive income,</u> and so forth. That requirement also pertains to reporting the tax benefit of an operating loss carryforward in interim periods.

740-270-45-5 Paragraph 740-270-25-11 establishes the requirement that 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 shall be made for income that arises in later interim periods until the tax effects of the previous interim losses are utilized.~~ 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.~~

28. Amend paragraphs 740-270-55-24 through 55-28 and their related heading and paragraph 740-270-55-38, with a link to transition paragraph 225-20-65-1, as follows:

Implementation Guidance and Illustrations

> > Example 3: Accounting for Income Taxes Applicable to ~~Unusual,~~ <u>Unusual or</u> Infrequently Occurring~~, or Extraordinary~~ Items

740-270-55-24 The following Cases illustrate accounting for income taxes applicable to ~~unusual,~~ <u>unusual or</u> infrequently occurring~~, or extraordinary~~ items when ordinary income is expected for the fiscal year:

a. Realization of the tax benefit is more likely than not at date of occurrence (Case A)
b. Realization of the tax benefit not more likely than not at date of occurrence (Case B).

740-270-55-25 Cases A and B illustrate the computation of the tax (or benefit) applicable to ~~unusual,~~ unusual or infrequently occurring~~, or extraordinary~~ items when ordinary income is anticipated for the fiscal year. These Cases are based on the assumptions and computations presented in paragraph 740-270-55-3 and Example 1, Cases A and B (see paragraphs 740-270-55-4 through 55-8), plus additional information supplied in Cases A and B of this Example. The computation of the tax (or benefit) applicable to the ordinary income is not affected by the occurrence of an ~~unusual,~~ unusual or infrequently occurring~~, or extraordinary~~ item; therefore, each Case refers to one or more of the illustrations of that computation in Example 1, Cases A and B (see paragraphs 740-270-55-4 through 55-8), and does not reproduce the computation and the assumptions. The income statement display for tax (or benefit) applicable to ~~unusual,~~ unusual or infrequently occurring~~, or extraordinary~~ items is illustrated in Example 7 (see paragraph 740-270-55-52).

> > > Case A: Realization of the Tax Benefit Is More Likely Than Not at Date of Occurrence

740-270-55-26 As explained in paragraph 740-270-55-25, this Case is based on the computations of tax applicable to ordinary income that are illustrated in Example 1, Case A (see paragraph 740-270-55-4). In addition, the entity experiences a tax-deductible ~~unusual,~~ unusual or infrequently occurring~~, or extraordinary~~ loss of $50,000 (tax benefit $25,000) in the second quarter. Because the loss can be carried back, it is more likely than not that the tax benefit will be realized at the time of occurrence. Quarterly tax provisions are as follows.

[Note: Because the column headings have been changed only to remove the word *extraordinary,* the amended table is not shown here.]

740-270-55-27 Note that changes in assumptions would not change the timing of the recognition of the tax benefit applicable to the ~~unusual,~~ unusual or infrequently occurring~~, or extraordinary~~ item as long as realization is more likely than not.

> > > Case B: Realization of the Tax Benefit Not More Likely Than Not at Date of Occurrence

740-270-55-28 As explained in paragraph 740-270-55-25, this Case is based on the computations of tax applicable to ordinary income that are illustrated in Example 1, Cases A and B1 (see paragraphs 740-270-55-4 through 55-6). In addition, the entity experiences a tax-deductible ~~unusual,~~ unusual or infrequently occurring~~, or extraordinary~~ loss of $50,000 (potential benefit $25,000) in the second quarter. The loss cannot be carried back, and available evidence indicates that a **valuation allowance** is needed for all of the deferred tax asset. As a result, the tax benefit of the ~~unusual,~~ unusual or infrequently occurring~~, or extraordinary~~ loss is recognized only to the extent of offsetting ordinary income for the year to date. Quarterly tax provisions under two different assumptions for the occurrence of ordinary income are as follows.

[Note: Because the column headings have been changed only to remove the word *extraordinary,* the amended table is not shown here.]

> > Example 5: Accounting for Income Taxes Applicable to Ordinary Income if an Entity Is Subject to Tax in Multiple Jurisdictions

740-270-55-38 Cases A, B, and C assume that an entity operates through separate corporate entities in two countries. Applicable tax rates are 50 percent in the United States and 20 percent in Country A. The entity has no unusual or ~~extraordinary~~ infrequently occurring items during the fiscal year and anticipates no tax credits or events that do not have tax consequences. (The effect of foreign tax credits and the necessity of providing tax on undistributed earnings are ignored because of the wide range of tax planning alternatives available.) For the full fiscal year the entity anticipates ordinary income of $60,000 in the United States and $40,000 in Country A. The entity is able to make a reliable estimate of its Country A ordinary income and tax for the fiscal year in dollars. Computation of the overall estimated annual effective tax rate in Cases B and C is based on additional assumptions stated in those Cases.

Amendments to Subtopic 830-20

29. Amend paragraph 830-20-45-5, with no link to a transition paragraph, as follows:

Foreign Currency Matters—Foreign Currency Transactions

Other Presentation Matters

> Reporting Other Comprehensive Income

> > Income Tax Consequences of Rate Changes

830-20-45-5 Subtopic 740-10 requires income tax expense to be allocated among income ~~before extraordinary items~~ from continuing operations, ~~extraordinary items~~ discontinued operations, other comprehensive income, adjustments of prior periods (or of the opening balance of retained earnings), and direct entries to other equity accounts. Some transaction gains and losses are reported in other comprehensive income. Any income taxes related to those transaction gains and losses shall be allocated to other comprehensive income.

30. Amend the heading before paragraph 830-30-45-22, with no link to a transition paragraph, as follows:

> Transaction Gains and Losses ~~Not Extraordinary~~

830-30-45-22 Paragraph 830-10-45-19 provides guidance on the characterization of transaction gains and losses.

Amendments to Subtopic 930-715

31. Amend paragraph 930-715-45-1, with a link to transition paragraph 225-20-65-1, as follows:

Extractive Activities—Mining—Compensation—Retirement Benefits

Other Presentation Matters

930-715-45-1 If an entity accounts for its obligation under the Act as a loss (see paragraph 930-715-25-1) in accordance with Subtopic 450-20, the estimated loss should be reported as an ~~extraordinary~~ unusual or infrequently occurring item.

Amendments to Subtopic 958-225

32. Amend paragraph 958-225-55-7 and its related heading, with no link to a transition paragraph, as follows:

Not-for-Profit Entities—Income Statement

Implementation Guidance and Illustrations

> > Example 2: ~~Extraordinary Items and~~ Discontinued Operations

958-225-55-7 This Example illustrates the application of paragraph 958-205-45-5, as generally accepted accounting principles (GAAP) requires the display of an appropriately labeled subtotal for change in a class of net assets before the effects of ~~an extraordinary item (see Subtopic 225-20 on extraordinary and unusual items) or~~ a discontinued operation (see paragraph 205-20-45-1A through 45-1D). For instance, using the columnar Format B of paragraph 958-205-55-14, a statement of activities would report the effects of ~~an extraordinary item~~ a discontinued operation as follows.

[Note: Because only the term *extraordinary items* is being changed to *discontinued operations*, the amended table is not shown here.]

Amendments to Subtopic 980-20

33. Amend paragraph 980-20-40-4, with a link to transition paragraph 225-20-65-1, as follows:

Regulated Operations—Discontinuation of Rate-Regulated Accounting

Derecognition

980-20-40-4 Whether those assets have been impaired shall be judged in the same manner as for entities in general. The net effect of the adjustments required by this Subtopic shall be included in income of the period in which the discontinuation occurs and shall be classified separately in income from continuing operations as an ~~extraordinary~~ unusual or infrequently occurring item.

34. Amend paragraph 980-20-50-2, with a link to transition paragraph 225-20-65-1, as follows:

Disclosure

980-20-50-2 The disclosure requirements of Subtopic 225-20 for ~~extraordinary~~unusual or infrequently occurring items apply to the net adjustment reported in the statement of operations as a result of applying this Subtopic.

35. Amend paragraphs 980-20-55-4, 980-20-55-9, and 980-20-55-13, with a link to transition paragraph 225-20-65-1, as follows:

Implementation Guidance and Illustrations

980-20-55-4 All of those items should be eliminated from the entity's statement of financial position when it ceases to apply this Topic. The resulting charge to income~~, net of any related tax effects~~ should be reported as an ~~extraordinary~~ unusual or infrequently occurring item in the period that includes December 31, 19X1. The entity should no longer defer those costs and report them as assets because they could not be reported as assets by entities in general. Entities in general would report a receivable for those items only if a right to receive payment exists as a result of past events or transactions and regardless of future transactions (such as future sales).

980-20-55-9 The portion of the deferred gain allocable to State 1 (determined in this Example to be 40 percent of $50,000, or $20,000)~~, net of any related tax effects,~~ should be eliminated from the entity's statement of financial position when it ceases to apply this Topic to its operations in State 1. No adjustment should be made for the deferred gain applicable to State 2. The regulatory-created accrual for revenues subject to refund in State 1~~, net of any related tax effects,~~ should be eliminated. Whether any liability related thereto exists should be determined under generally accepted accounting principles (GAAP) for entities in general. For example, amounts that were collected in the current or prior periods for which refunds will be made regardless of future sales should continue to be reported as liabilities after application of this Topic is discontinued. The credit to income resulting from the above adjustments~~, net of any related tax effects,~~ should be reported as an ~~extraordinary~~unusual or infrequently occurring item in the period that includes December 31, 19X2.

980-20-55-13 Utility C should eliminate that regulatory-created asset from its statement of financial position when the entity ceases to apply this Topic. The charge to income~~, net of any related tax effects,~~ should be reported as an ~~extraordinary~~ unusual or infrequently occurring item in the period that includes June 30, 19X3.

Other Proposed Amendments

36. The following table summarizes other proposed amendments related to the elimination of extraordinary items from the Accounting Standards Codification. For ease of readability, these amendments are provided in tabular format describing the nature of the reference to extraordinary items, a description of the proposed amendment, and the associated paragraph citation. These proposed amendments are not expected to change practice; therefore, transition guidance is not provided.

Nature of Extraordinary Item Reference	Description of Proposed Change	Paragraph
Item shall not be classified as extraordinary	Reference superseded from paragraph	740-30-25-15 740-30-25-19 942-740-25-1 944-740-25-3 944-805-45-3 980-605-50-1
	Paragraph superseded	410-30-45-3 410-30-45-6

Nature of Extraordinary Item Reference	Description of Proposed Change	Paragraph
		470-20-45-1 470-20-45-2 830-10-45-19
	Subparagraph superseded	830-10-45-1 830-30-45-1
	Reference superseded from paragraph and related heading amended	830-20-45-4
Extraordinary, unusual, or infrequently occurring	~~Extraordinary, unusual,~~ Unusual or infrequently occurring	270-10-05-2 270-10-50-1(e) 270-10-50-2
Provides guidance if an entity reports an extraordinary item	Reference superseded from paragraph	260-10-45-3 260-10-45-18 260-10-45-20
Disclosure of amounts classified as extraordinary	Reference superseded from subparagraph	225-30-50-1
	Reference superseded from paragraph	230-10-45-24
Extraordinary item requirements in Subtopic 225-20	Reference superseded from paragraph	225-30-45-1 815-30-35-44 852-10-45-9
Extraordinary item as a component of income	Reference superseded from paragraph	220-10-45-7 280-10-50-29(b) 280-10-50-30(b) 280-10-50-32(f) 830-30-45-21 958-225-55-6

Nature of Extraordinary Item Reference	Description of Proposed Change	Paragraph
	Reference superseded from subparagraph	270-10-50-1 958-205-55-12
	Subparagraph superseded	280-10-50-22(i) 810-10-50-1A
Extraordinary items shall be reported separately from the performance indicator	Reference superseded from subparagraph	954-225-45-7(f)
Extraordinary item as an amount included in schedule of changes in consolidated net assets	Subparagraph superseded	958-810-50-5(c)
Income before extraordinary item	Net income ~~before extraordinary items~~	205-20-45-3 205-20-45-3A 260-10-55-51
	~~Income before extraordinary items~~	250-10-50-6

37. The following table summarizes amendments to illustrations contained within implementation guidance related to the elimination of extraordinary items from the Accounting Standards Codification. For ease of readability, these amendments are provided in tabular format describing the nature of the reference to extraordinary items, a description of the proposed amendment, and the associated paragraph citation. These proposed amendments are not expected to change practice.

Codification Subtopic	Nature of Extraordinary Item Illustration	Description of Proposed Change	Paragraph
220-10	Example 1: Presenting Comprehensive Income	Amend illustrations to supersede extraordinary item reference	55-7 through 55-9
260-10	Example 1: Computation of Basic and Diluted EPS and Income Statement Presentation	Amend illustrations to supersede extraordinary item reference	55-38 through 55-50

Codification Subtopic	Nature of Extraordinary Item Illustration	Description of Proposed Change	Paragraph
260-10	Example 2: EPS Disclosures	Net income ~~before extraordinary items~~	55-51 and 55-52
280-10	Case C: Reconciliation of Reportable Segment Revenues, Profit or Loss, and Assets, to the Consolidated Totals	Income before income taxes~~ and extraordinary items~~	55-49
740-20	Case A: Loss from Continuing Operations with an Extraordinary Gain	Amend illustration to supersede extraordinary gain reference	55-10 through 55-12
740-20	Example 3: Allocation of the Benefit of a Tax Credit Carryforward	Amend illustration to supersede extraordinary gain reference	55-15 through 55-17
740-270	Case A: Realization of the Tax Benefit Is More Likely Than Not at Date of Occurrence	~~Unusual,~~ Unusual or infrequently occurring~~, or Extraordinary~~ Loss	55-26
740-270	Case B: Realization of the Tax Benefit Not More Likely Than Not at the Date of Occurrence	~~Unusual,~~ Unusual or infrequently occurring~~, or Extraordinary~~ Loss	55-28
740-270	Example 7: Illustration of Income Taxes in Income Statement Display	Amend illustration to supersede extraordinary items reference	55-52
958-225	Example 1: Intermediate Measure of Operations	Amend table to supersede extraordinary items reference	55-6
958-225	Example 2: Extraordinary Items and Discontinued Operations	Amend table to supersede extraordinary items reference	55-7

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

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
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Background Information and Basis for Conclusions

Introduction

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

BC2. The Board is issuing this proposed Update as part of a Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of the financial statements.

Background Information

BC3. The Board proposes to simplify the income statement presentation requirements in Subtopic 225-20 by eliminating the concept of extraordinary items from GAAP. Extraordinary items are events and transaction that are distinguished by their unusual nature and by the infrequency of their occurrence.

BC4. The Board observed that it is extremely rare in current practice for an event or transaction to be presented as an extraordinary item. The term *extraordinary* causes uncertainty because it is unclear when an item should be considered both unusual and infrequent and what might be considered extraordinary in one industry may not be considered extraordinary to another. Therefore, the concept of extraordinary items has been interpreted narrowly in practice so entities rarely, if ever, meet the conditions for presentation. The Board also acknowledges that while users find information about unusual or infrequent events and transactions useful, they do not find the extraordinary item classification and presentation necessary to identify those events and transactions.

BC5. Even though the conditions for presenting an extraordinary item are rarely met, preparers, auditors, and regulators often are required to spend time and expend resources deciding whether an unusual and/or infrequent event or transaction meets the conditions for extraordinary classification. Eliminating the extraordinary classification would simplify income statement presentation by altogether removing the concept of extraordinary items from consideration.

BC6. The proposed Update is a narrow-scope initiative intended to eliminate only the concept of extraordinary items. Therefore, the Board did not consider other changes to Subtopic 225-20. However, the Board currently is researching ways to improve financial statement presentation as part of a separate project on financial performance reporting.

Disclosure

BC7. The Board proposes to remove the concept of extraordinary items. The Board believes that the proposed Update will not result in a loss of information because while the amendments would eliminate the requirements in Subtopic 225-20 for reporting entities to consider whether an underlying event or transaction is extraordinary, the presentation and disclosure guidance for items that are unusual in nature or that occur infrequently would be retained.

Effective Date and Transition

BC8. The Board expects that the Update would be effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, with early adoption permitted. The final effective date will depend on feedback from stakeholders on the proposed Update and the issuance date of any final Accounting Standards Update. Because the amendments in this proposed Update are intended to simplify the guidance for all entities, and the amendments are not expected to be costly to implement, the Board decided that it was not necessary to delay the effective date for entities other than public business entities.

BC9. The Board decided to require prospective application to periods beginning after the effective date. The Board decided that the costs of requiring or permitting retrospective application of the guidance would increase the cost and complexity of transition. The Board acknowledges that there would be a benefit in terms of comparability if a reporting entity retrospectively adjusts its income statement presentation to eliminate any extraordinary items presented in prior periods. However, the Board concluded that this potential benefit does not justify the costs that would be incurred.

BC10. The Board decided that at transition an entity would be required only to disclose, if applicable, that an item included in income from continuing operations after adoption of the Update relates to an adjustment of an item previously separately classified and presented as an extraordinary item before the date of adoption. The Board decided that quantitative disclosures were unnecessary.

Benefits and Costs

BC11. 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 Board'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.

BC12. The Board anticipates that the proposed Update will reduce cost without reducing the availability of relevant information because entities no longer will have to assess whether an event or transaction is extraordinary (even if they would ultimately conclude it is not) and because the presentation and disclosure guidance for items that are unusual in nature or occur infrequently would be retained.

Amendments to the XBRL Taxonomy

The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (UGT). We welcome comments on these proposed changes to the UGT through ASU Taxonomy Changes provided at www.fasb.org. After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the UGT will be made available for public comment at www.fasb.org and finalized as part of the annual release process.