

# FINANCIAL ACCOUNTING SERIES



## ACCOUNTING STANDARDS UPDATE

No. 2010-29  
December 2010

### Business Combinations (Topic 805)

Disclosure of Supplementary Pro Forma Information  
for Business Combinations

a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*<sup>™</sup>

Financial Accounting Standards Board  
of the Financial Accounting Foundation

The *FASB Accounting Standards Codification*<sup>™</sup> 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.

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# Summary

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

The objective of this Update is to address diversity in practice about 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 Is Affected by the Amendments in This Update?

The amendments in this Update 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 Update specify that if a public entity presents comparative financial statements, the entity should 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 Update also 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 included in the reported pro forma revenue and earnings.

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

The amendments in this Update 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 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 that are directly attributable to the business combination(s).

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

The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted.

## **How Do the 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.

# 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 2–7. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. 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~~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) 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). For example, for a calendar year-end entity, disclosures would be provided for a business combination that occurs in 20X2, as if it occurred on January 1, 20X1. Such disclosures would not be revised if 20X2 is presented for comparative purposes with the 20X3 financial statements (even if 20X2 is the earliest period presented).
  4. The nature and amount of any material, nonrecurring pro forma 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. Amend paragraph 805-10-55-49 and add paragraph 805-10-55-50, with a link to transition paragraph 805-10-65-2, as follows:

## Implementation Guidance and Illustrations

### > > Example 5: Illustration of Disclosure Requirements

**805-10-55-37** This Example illustrates some of the disclosure requirements established in the several Subtopics of this Topic; it is not based on an actual transaction. The Example assumes that Acquirer is a public entity and that Target is a private entity. The illustration presents the disclosures in a tabular format that refers to the specific disclosure requirements illustrated. An actual footnote might present many of the disclosures illustrated in a simple narrative format.

#### **805-10-55-49** Paragraph ~~805-10-50-2(h)~~805-10-50-2(h)(1) through (h)(3)

The amounts of Target's revenue and earnings included in Acquirer's consolidated income statement for the year ended December 31, 20X2, and the revenue and earnings of the combined entity had the acquisition date been January 1, 20X2 (if comparative financial statements are not presented), and ~~for~~ January 1, 20X1 (if comparative financial statements are presented), are as follows.

| <u>Refer to Paragraph</u> |  | <u>Revenue</u>   | <u>Earnings</u>  |
|---------------------------|--|------------------|------------------|
| 805-10-50-2(h)(1)         | Actual from 6/30/20X2–12/31/20X2   | \$ 4,090         | \$ 1,710         |
| 805-10-50-2(h)(2)         | <u>20X2 Supplemental-supplemental pro forma from 1/1/20X2–12/31/20X2</u>     | \$ 27,670        | \$ 12,870        |
| 805-10-50-2(h)(3)         | <u>20X2 supplemental pro forma from 1/1/20X2–12/31/20X2</u>                  | <u>\$ 27,670</u> | <u>\$ 14,770</u> |
|                           | <u>20X1 Supplemental-supplemental pro forma from for 1/1/20X1–12/31/20X1</u> | \$ 26,985        | \$ 12,325        |

#### **805-10-55-50** Paragraph 805-10-50-2(h)(4)

20X2 supplemental pro forma earnings were adjusted to exclude \$1,250 of acquisition-related costs incurred in 20X2 and \$650 of nonrecurring expense

related to the fair value adjustment to acquisition-date inventory. 20X1 supplemental pro forma earnings were adjusted to include these charges.

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

**> Transition Related to Accounting Standards Update No. 2010-29, 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. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations:

- a. The pending content that links to this paragraph shall be applied prospectively for business combinations for which the acquisition date is 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

5. 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).
- e. The nature and amount of any material, nonrecurring pro forma adjustments directly attributable to the acquisition(s) included in the reported pro forma revenues and changes in unrestricted net assets, changes in temporarily restricted net assets, and changes in permanently restricted net assets (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 had ~~been occurred as of~~ the beginning of the comparable prior annual reporting period. For example, for a calendar year-end entity, disclosures would be provided for a business combination that occurs in 20X2, as if it occurred on January 1, 20X1. Such disclosures would not be revised if 20X2 is presented for comparative purposes with the 20X3 financial statements (even if 20X2 is the earliest period presented).

**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.

6. Amend paragraph 805-10-00-1, by adding the following items to the table, as follows:

**805-10-00-1** The following table identifies the changes made to this Subtopic.

| Paragraph Number | Action  | Accounting Standards Update | Date     |
|------------------|---------|-----------------------------|----------|
| 805-10-50-2      | Amended | 2010-29                     | 12/21/10 |
| 805-10-55-49     | Amended | 2010-29                     | 12/21/10 |
| 805-10-55-50     | Added   | 2010-29                     | 12/21/10 |
| 805-10-65-2      | Added   | 2010-29                     | 12/21/10 |

7. Amend paragraph 958-805-00-1, by adding the following items to the table, as follows:

**958-805-00-1** The following table identifies the changes made to this Subtopic.

| <b>Paragraph Number</b> | <b>Action</b> | <b>Accounting Standards Update</b> | <b>Date</b> |
|-------------------------|---------------|------------------------------------|-------------|
| 958-805-50-8            | Amended       | 2010-29                            | 12/21/10    |
| 958-805-50-9            | Amended       | 2010-29                            | 12/21/10    |

*The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:*

Leslie F. Seidman, *Acting Chairman*  
Russell G. Golden  
Thomas J. Linsmeier  
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 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 have 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(s). The Task Force noted that this information would assist users in understanding the pro forma financial information presented.

BC5. At the September 16, 2010 EITF meeting, the Task Force reached a consensus-for-exposure on EITF Issue No. 10-G, "Disclosure of Supplementary Pro Forma Information for Business Combinations." A proposed Accounting

Standards Update was issued on October 6, 2010, with a comment period that ended on November 5, 2010. Six comment letters were received on the proposed Update.

BC6. While developing the proposed Update, 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 include in the proposed Update 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.

BC7. During the Task Force's redeliberation of the proposed Update, the SEC Observer noted that the SEC staff recognized that the amendments in the proposed Update, while conforming in many respects to Article 11, diverged from Article 10 of Regulation S-X. The SEC staff noted that the intent of Article 10 was to require pro forma information in interim financial statements to be prepared in a manner that is consistent with that required by GAAP in the annual financial statements. Accordingly, the SEC staff stated it would not object to registrants' application of Article 10 to their interim financial statements in a manner consistent with the amendments in the Update while the SEC staff considers ways to update Article 10 to be consistent with the amendments in the Update.

BC8. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010.

BC9. The Task Force decided to require prospective application of the amendments with early adoption permitted.

## Benefits and Costs

BC10. 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.

BC11. The Task Force does not anticipate that an entity will incur significant costs as a result of the amendments in this Update. The Task Force concluded that the information required to comply with the amendments generally should be available to entities.

## 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.

| <b>Standard Label<sup>†</sup></b>  | <b>Definition</b>   | <b>Codification Reference</b> |
|--|---|-------------------------------|
| 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 pro forma 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)             |
| Business Acquisition, Pro Forma Information, Nonrecurring Adjustments [Table]            | Schedule detailing the nature and amount of any material, nonrecurring pro forma 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)             |
| Information by Nonrecurring Adjustment [Axis]  | Qualitative and quantitative information by material, nonrecurring pro forma adjustment 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)             |

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<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>       |
|--|---|-------------------------------------|
| Business Acquisition, Pro Forma Information, Nonrecurring Adjustments [Member]     | Represents material, nonrecurring pro forma adjustment(s) included in the reported pro forma revenue and earnings (supplemental pro forma information).   | 805-10-50-2(h)(4)                   |
| 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)                   |
| <b>Business Acquisition, Pro Forma Information, Description*</b>                   | Description of the pro forma information, nature of pro forma adjustments made to historical information to arrive at pro forma amounts, amounts excluded from pro forma information, any material-nonrecurring pro forma items included in the pro forma information and limitations of pro forma disclosures. | 805-10-50-2(h) <del>(2-3)</del> (4) |