
NO. 1640-100 | OCTOBER 9, 2008

Financial Accounting Series

EXPOSURE DRAFT

Proposed Statement of Financial Accounting Standards

Subsequent Events

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

Technical Director
File Reference No. 1640-100

Comment Deadline: December 8, 2008



Financial Accounting Standards Board
of the Financial Accounting Foundation

Responses from interested parties wishing to comment on the Exposure Draft must be **received** in writing by December 8, 2008. Interested parties should submit their comments by email to director@fasb.org, File Reference No. 1640-100. Those without email may send their comments to the “Technical Director—File Reference No. 1640-100” at the address at the bottom of this page. Responses should **not** be sent by fax.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB’s website and will be included in the project’s public record.

An electronic copy of this Exposure Draft is available on the FASB’s website until the FASB issues a final document. Any individual or organization may obtain one copy of this Exposure Draft without charge until December 8, 2008, on written request only. **Please ask for our Product Code No. E200.** For information on applicable prices for additional copies and copies requested after December 8, 2008, contact:

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Financial Accounting Standards Board
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Notice for Recipients of This Exposure Draft

This proposed Statement would provide guidance on the recognition and disclosure of subsequent events, that is, events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. Currently, AU Section 560, *Subsequent Events*, of the AICPA Codification of Statements on Auditing Standards contains the recognition and disclosure guidance for subsequent events. The Public Company Accounting Oversight Board (PCAOB) adopted AU Section 560 on an initial, transitional basis and has subsequently amended that interim standard.

The FASB is responsible for establishing standards that guide the accounting for and disclosure of various transactions and events that affect an entity's financial statements. The Board believes that accounting guidance on subsequent events should be directed specifically to management of reporting entities because management (not an entity's auditor or other external accountant) is responsible for determining the accounting for and disclosure of transactions and events that affect an entity's financial statements. Accordingly, the Board concluded that guidance on subsequent events also should reside in the accounting literature established by the FASB and decided to issue this proposed Statement.

The Board decided to carry forward the subsequent events guidance as set forth in AU Section 560, subject to certain modifications that are not expected to result in a change in current practice. Those modifications are:

1. To name the two types of subsequent events: *recognized subsequent events* and *nonrecognized subsequent events*
2. To revise the definition of subsequent events to include the concept of financial statements *being available to be issued*.

The Board considered changing certain of the subsequent events guidance in AU Section 560, such as addressing inconsistencies with International Financial Reporting Standards (IFRSs) in the areas of refinancing short-term obligations and curing violations of borrowing covenants, but decided against those changes. The Board did address potential (1) convergence issues related to the date through which subsequent events should be considered for recognition in the financial statements and (2) conflicts with other authoritative literature.

Information for Respondents

The Board invites individuals and organizations to send written comments on all matters in this proposed Statement, particularly on the issues listed below. Respondents need not comment on each issue and are encouraged to comment on additional matters that they believe should be brought to the Board's attention. Comments are requested from those who agree with the provisions of this proposed Statement and from those who do not.

Comments are most helpful if they identify the issues or the specific paragraph(s) to which the comments relate and clearly explain the reasons for the positions taken. Those who disagree with the provisions of this proposed Statement are asked to describe their suggested alternatives, supported by specific reasoning. Respondents must submit comments in writing by December 8, 2008.

The Board specifically requests comments on the issues discussed below.

Consideration of Subsequent Events through the Date That Financial Statements Are Issued or Available to Be Issued

Issue 1: Under AU Section 560, subsequent events were events or transactions that occurred after the balance sheet date but before the issuance of the financial statements. Under this proposed Statement, subsequent events would be events or transactions that occur after the balance sheet date but before the date that financial statements are issued or are available to be issued. The Board added the notion of *available to be issued* to consider situations in which financial statements may not be audited or may not be widely distributed after the financial statements are prepared—as may be the case with some nonpublic entities. The Board reasoned that an entity should not be required to evaluate subsequent events for an extended period of time for recognition in the financial statements solely because it does not have a practice of widely distributing its financial statements upon completion. A reasonable accommodation in this situation would be to require entities to determine the date upon which the financial statements are available to be issued.

Do you believe that this accommodation is helpful and operational? If not, why?

Disclosure of the Date through Which Subsequent Events Were Evaluated

Issue 2: In conjunction with defining subsequent events as events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued, the Board decided that entities should disclose the date through which subsequent events were considered and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. IAS 10, *Events after the Reporting Period*, also requires disclosure of the date through which the entity evaluated subsequent events, and the Board reasoned that this disclosure was important information for users of financial statements in light of the accommodation provided to entities that may not have a consistent practice of widely distributing their financial statements upon completion.

Do you believe that this disclosure is needed and would be useful? If not, why? Do you believe that providing this disclosure will result in a significant change in an entity's process of preparing and issuing financial statements?

Scope Exception

Issue 3: Other applicable generally accepted accounting principles (GAAP) may address the accounting for subsequent events in a manner that is inconsistent with the principles in this proposed Statement. This proposed Statement is not intended to change the accounting required by such other applicable GAAP and, therefore, includes a scope exception for that GAAP. For example, this proposed Statement does not change the accounting for curing violations of borrowing covenants after the balance sheet date but before the financial statements are issued or are available to be issued. The Board reasoned that previous Boards were aware of the departures in those standards from AU Section 560 and decided against amending existing authoritative literature as a part of this project.

Do you agree? If not, why?

Summary

Why Is the FASB Issuing This Proposed Statement and When Will It Be Effective?

The objective of this proposed Statement is to establish general standards of accounting for and disclosure of events that occur subsequent to the balance sheet date but before financial statements are issued or are available to be issued. In particular, this proposed Statement sets forth:

1. The period after the balance sheet date during which management of a reporting entity would evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements
2. The circumstances under which an entity would recognize events or transactions occurring after the balance sheet date in its financial statements
3. The disclosures that an entity would make about events or transactions that occurred after the balance sheet date.

In accordance with this proposed Statement, an entity would apply the requirements to interim or annual financial periods ending after ratification of the FASB Accounting Standards Codification.TM

What Is the Scope of This Proposed Statement?

This proposed Statement would be applied in the accounting for and disclosure of subsequent events. This proposed Statement would not be applied to subsequent events or transactions that are within the scope of other applicable generally accepted accounting principles (GAAP) that provide different guidance on the accounting treatment for subsequent events or transactions. This proposed Statement would apply to both interim and annual financial statements.

How Will This Proposed Statement Change Current Practice?

This proposed Statement would not result in significant changes in the subsequent events that an entity reports—either through recognition or disclosure—in its financial statements. This proposed Statement would introduce the concept of financial statements *being available to be issued*. It would require the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure would alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented.

What Is the Effect of This Proposed Statement on Convergence with International Financial Reporting Standards?

This proposed Statement would not address all differences between previous guidance in the United States; AU Section 560, *Subsequent Events*; and IAS 10, *Events after the Reporting Period*—for example, refinancing short-term obligations and curing violations of borrowing covenants. The requirement to disclose the date through which the entity has evaluated subsequent events is consistent with the guidance in IAS 10. IAS 10 requires evaluation of subsequent events through the date on which the financial statements are authorized to be issued, while this proposed Statement would require evaluation of subsequent events through the date that the financial statements are issued or available to be issued.

Proposed Statement of Financial Accounting Standards

Subsequent Events

October 9, 2008

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Proposed Statement of Financial Accounting Standards

Subsequent Events

October 9, 2008

OBJECTIVE

1. The objective of this Statement is to establish principles and requirements for subsequent events. In particular, this Statement sets forth:
 - a. The period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements
 - b. The circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements
 - c. The disclosures that an entity shall make about events or transactions that occurred after the balance sheet date.

<p>All paragraphs in this Statement have equal authority. Paragraphs in bold set out the main principles.</p>
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STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope and Scope Exceptions

2. **This Statement shall be applied in the accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles (GAAP).**
3. Other applicable GAAP may address the accounting treatment of events or transactions that occur after the balance sheet date. If an event or transaction is within the scope of other applicable GAAP, then an entity shall follow the guidance in that applicable GAAP, rather than the guidance in this standard.

Key Terms

4. ***Subsequent events* are events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events:**

- a. **The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events).**
- b. **The second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose subsequent to that date (that is, nonrecognized subsequent events).**

5. *Financial statements are issued.* Financial statements are considered issued when they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with GAAP. (U.S. Securities and Exchange Commission [SEC] registrants also are required to consider the guidance in EITF Topic No. D-86, “Issuance of Financial Statements.”)

6. *Financial statements are available to be issued.* Financial statements are considered available to be issued when they are complete in a form and format that complies with GAAP and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, or significant shareholders.

7. The process involved in creating and distributing the financial statements will vary depending on an entity’s management and corporate governance structure as well as statutory and regulatory requirements. An entity that has a historical practice or current expectation of widely distributing its financial statements to its shareholders and other financial statement users (including a *public business enterprise*, as described in paragraph 9 of FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*) shall evaluate subsequent events through the date that the financial statements are issued. All other entities shall evaluate subsequent events through the date that the financial statements are available to be issued.

Recognition

Recognized Subsequent Events

8. **An entity shall recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements.**

9. The following are examples of recognized subsequent events:

- a. If the events that gave rise to litigation had taken place before the balance sheet date and that litigation is settled after the balance sheet date for an amount different from the liability recorded in the accounts, then the settlement amount should be recognized in the financial statements.

- b. Subsequent events affecting the realization of assets, such as receivables and inventories or the settlement of estimated liabilities, should be recognized in the financial statements when those events represent the culmination of conditions that existed over a relatively long period of time. For example, a loss on an uncollectible trade account receivable as a result of a customer's deteriorating financial condition leading to bankruptcy after the balance sheet date ordinarily will be indicative of conditions existing at the balance sheet date, thereby calling for recognition of the effects of the customer's bankruptcy filing in the financial statements before they are issued or are available to be issued.

Nonrecognized Subsequent Events

10. An entity shall not recognize subsequent events that provide evidence about conditions that did *not* exist at the date of the balance sheet but that arose after the balance sheet date.

11. The following are examples of nonrecognized subsequent events:

- a. Sale of a bond or capital stock issued after the balance sheet date
- b. A business combination that occurs after the balance sheet date (FASB Statement No. 141 [revised 2007], *Business Combinations*, paragraphs 67–70, requires specific disclosures in such cases.)
- c. Settlement of litigation when the event giving rise to the claim took place after the balance sheet date
- d. Loss of plant or inventories as a result of fire or natural disaster that occurred after the balance sheet date
- e. Losses on receivables resulting from conditions (such as a customer's major casualty) arising after the balance sheet date
- f. Changes in the quoted market prices of securities or foreign exchange rates after the balance sheet date
- g. Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the balance sheet date.

Disclosure

Date through Which Subsequent Events Have Been Evaluated

12. An entity shall disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued.

Nonrecognized Subsequent Events

13. **Some nonrecognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading. For such events, an entity shall disclose the following:**

- a. **The nature of the event**
- b. **An estimate of its financial effect, or a statement that such an estimate cannot be made.**

14. An entity also shall consider supplementing the historical financial statements with pro forma financial data. Occasionally, a nonrecognized subsequent event may be so significant that disclosure can best be made by means of pro forma financial data. Such data shall give effect to the event as if it had occurred on the balance sheet date. In some situations, an entity also shall consider presenting pro forma statements, usually a balance sheet only, in columnar form on the face of the historical statements.

Reissuance of Financial Statements

15. An entity may occasionally need to reissue financial statements, for example, in reports filed with the SEC or other regulatory agencies. After the original issuance of the financial statements, events or transactions may have occurred that require disclosure in the reissued financial statements to keep them from being misleading. An entity shall not recognize events occurring between the time of original issuance and reissuance of financial statements unless the adjustment is required by GAAP or regulatory requirements. An entity shall make adjustments to the financial statements for the correction of an error (see FASB Statement No. 154, *Accounting Changes and Error Corrections*). An entity may consider presenting pro forma financial statements to supplement the historical financial statements in certain circumstances (see paragraph 14). Similarly, an entity shall not recognize events or transactions occurring subsequent to the original issuance in financial statements that are reissued in comparative form along with financial statements of subsequent periods unless the adjustment meets the criteria stated in this paragraph or is otherwise required by GAAP.

EFFECTIVE DATE AND TRANSITION

16. This Statement shall be effective for interim or annual financial periods ending after ratification of the FASB Accounting Standards Codification™ and shall be applied prospectively.

<p>The provisions of this Statement need not be applied to immaterial items.</p>

Appendix A

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

A1. This appendix summarizes considerations that Board members deemed significant in reaching the conclusions in this proposed Statement. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

A2. In conjunction with its effort to simplify access to all authoritative U.S. GAAP by providing all of the authoritative literature related to a particular topic in one place, the Board has undertaken projects to incorporate accounting guidance that originated as auditing standards into the body of authoritative literature issued by the FASB. In addition to this proposed Statement, these projects include FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and proposed guidance about going concern. Including this guidance in authoritative accounting literature as well as in auditing standards further emphasizes that accounting and reporting are the primary responsibility of an entity and its management, not its auditor.

Scope

A3. The Board decided not to undertake a fundamental reexamination of the topic of subsequent events. Rather, it decided to develop an accounting standard that reflects the principles underpinning current subsequent events guidance in existing accounting literature and in AU Section 560, *Subsequent Events*. The Board also decided that an objective of the project would be to consider whether certain minor differences between U.S. GAAP and IAS 10, *Events after the Reporting Period*, could be eliminated or minimized.

A4. The Board further decided that the project would not address inconsistencies or differences between U.S. GAAP and International Financial Reporting Standards (IFRSs) in the following areas:

- a. Refinancing of short-term obligations
- b. Curing breaches of borrowing covenants.

A5. The Board considered whether it should revisit all existing GAAP that contains guidance on subsequent events, noting that some existing GAAP contains guidance that conflicts with the principles in this proposed Statement. The following are examples of GAAP that conflict with this proposed Statement:

- a. FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, paragraph 13—“A change in judgment that results in subsequent recognition, derecognition, or change in measurement of a tax position taken in a prior annual period (including any related interest and penalties) shall be recognized as a **discrete item in the period in which the change occurs**” (emphasis added).

Analysis of conflict with this proposed Statement—Interpretation 48 automatically requires an entity to account for these items in the period of the change in estimate, that is, as a nonrecognized subsequent event as of the balance sheet date.

- b. FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, paragraph 6—“The cumulative effect of a change resulting from a revision to either the timing or the amount of estimated cash flows shall be recognized as an adjustment to the liability **in the period of the change** and reported in the same line item(s) in the income statement (statement of activities) used when the related costs were recognized initially” (emphasis added).

Analysis of conflict with this proposed Statement—Statement 146 requires all changes in estimates, regardless of whether they resulted from information available as of the date of the financial statements, to be considered a nonrecognized subsequent event.

- c. FASB Statement No. 128, *Earnings per Share*, paragraph 54—“If the number of common shares outstanding increases as a result of a stock dividend or stock split or decreases as a result of a reverse stock split, the computations of basic and diluted EPS shall be adjusted retroactively for all periods presented to reflect that change in capital structure. If changes in common stock resulting from stock dividends, stock splits, or reverse stock splits occur after the close of the period but before issuance of the financial statements, the per-share computations for those and any prior-period financial statements presented shall be based on the new number of shares. If per-share computations reflect such changes in the number of shares, that fact shall be disclosed” (footnote reference omitted).

Analysis of conflict with this proposed Statement—In contrast to the discussions of Interpretation 48 and Statement 146, Statement 128 treats what would be considered a nonrecognized subsequent event (stock split after the balance sheet date) as a recognized subsequent event and requires the financial statements to be adjusted for the change. Note that this guidance in Statement 128 is consistent with SEC Staff Accounting Bulletin Topic 4C, “Equity Accounts: Change in Capital Structure,” which requires retroactive adjustment of such changes in the capital structure throughout the financial statements, not just in earnings per share.

A6. Some Board members were reluctant to issue a standard articulating a principle that would be immediately subject to numerous scope exceptions. Board members noted that the principles in AU Section 560 have been in place since 1972 and that antecedent Boards considered those principles when reaching their conclusions on the conflicting guidance. Therefore, the Board concluded that it would include a scope exception in this proposed Statement for any other authoritative literature that contains specific guidance on the recognition, measurement, and disclosure of subsequent events.

Date through Which an Entity Should Evaluate Subsequent Events

A7. The Board concluded that the management of a reporting entity should evaluate events or transactions occurring after the balance sheet date through the date that the financial statements are issued or are available to be issued, depending on an entity's historical practice and current expectation with respect to the distribution of the financial statements. Under AU Section 560, subsequent events were evaluated through the issuance of financial statements. In EITF Topic No. D-86, "Issuance of Financial Statements," the SEC staff provided its views on the issuance of financial statements, noting that:

. . . financial statements are "issued" as of the date they are distributed for general use and reliance in a form and format that complies with generally accepted accounting principles (GAAP) and, in the case of annual financial statements, that contain an audit report that indicates that the auditors have complied with generally accepted auditing standards (GAAS) in completing their audit. Issuance of financial statements then would generally be the earlier of when the annual or quarterly financial statements are widely distributed to all shareholders and other financial statement users or filed with the Commission. Furthermore, the issuance of an earnings release does not constitute issuance of financial statements because the earnings release would not be in a form and format that complies with GAAP and GAAS. [Footnote reference omitted.]

A8. The Board generally agreed with the SEC staff's view as to when financial statements should be considered issued for SEC registrants. However, not all entities that would be subject to this proposed Statement have their financial statements audited and may not widely distribute those financial statements upon completion. In a letter dated May 16, 2007, the FASB's Private Company Financial Reporting Committee (PCFRC) noted that:

The strict notion of "issuance date" of the financial statements in the private company environment has little or no meaning because companies do not have a typical, universally understood issue date. For example, it is not uncommon for a private company to complete all work on the GAAP financial statements (including receiving an auditor's opinion or an accountant's report from an independent public accountant) on one date, send the financial statements to one of its end users on a later date, and then send the financials to yet another user on an even later date.

The PCFRC noted the importance of financial statements clearly identifying the date to which subsequent events were considered by management. Considering the example in the preceding paragraph, a user would be alerted to the fact that they are receiving financial statements after the subsequent events work was completed, and therefore, might consider performing some follow up procedures with company management to understand if there were any subsequent events between the date disclosed in the policy note and the date of receiving the financials.

A9. The Board also considered the guidance in IAS 10, under which entities must evaluate subsequent events through the date when the financial statements are authorized for issuance. Also under IAS 10, that date must be disclosed in the notes to financial statements. The authorization of financial statements is common in many non-U.S. corporate governance structures. The Board expressed concern with adopting this approach, in particular because most U.S. entities (public and nonpublic) likely do not have an authorization process and would have to develop one to comply with this proposed Statement.

A10. The Board concluded that this proposed Statement should require the management of a reporting entity to evaluate subsequent events through the date that the financial statements are issued or are available to be issued. Public business enterprises (as defined in paragraph 9 of Statement 131) and other entities that have a historical practice or current expectation of widely distributing their financial statements should evaluate subsequent events through the date that the financial statements are issued. All other entities (for example, nonpublic entities that do not widely distribute their financial statements to shareholders or other financial statement users) should evaluate subsequent events through the date that the financial statements are available to be issued. As a result, an entity that does not widely distribute its financial statements would not be required to continue to evaluate subsequent events for an extended period of time following the completion of the financial statements. In addition, the date through which the entity evaluated subsequent events should be disclosed in the notes to the financial statements, as well as whether that date is the date that the financial statements were issued or were available to be issued.

Effective Date and Transition

A11. The Board decided that this proposed Statement should be effective for interim or annual financial periods ending after ratification of the Codification and that it should be applied prospectively. The Board expects that this proposed Statement will not result in a change in current practice. In addition, the Board concluded that a prospective transition method would avoid any possible concerns about whether the reporting of subsequent events in prior reporting periods should be reconsidered.

Benefits and Costs

A12. 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 a new standard are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing an accounting standard is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement an accounting standard or to quantify the value of improved information in financial statements.

A13. The Board believes that this proposed Statement benefits financial reporting by emphasizing that management of a reporting entity (not its auditor or other external accountant) is primarily responsible for determining the accounting for and disclosure of transactions and events that affect an entity's financial statements. Furthermore, by modifying the definition of subsequent events to include the notion of financial statements available to be issued, this proposed Statement provides improved guidance on how to address situations where financial statements may not be audited or may not be widely distributed after the financial statements are prepared—as may be the case with some nonpublic entities. The Board also believes that this proposed Statement will benefit the convergence of U.S. GAAP and IFRSs by requiring disclosure of the date through which an entity has evaluated any subsequent events.

A14. Because this proposed Statement does not change the principles underlying AU Section 560, the Board does not anticipate any significant change in financial reporting. The Board believes that this proposed Statement will not impose any significant costs on its constituents.

Appendix B

AMENDMENTS TO THE FASB ACCOUNTING STANDARDS CODIFICATION™

Introduction

B1. This appendix outlines how this proposed Statement would affect the FASB Accounting Standards Codification™ (Codification). Because this proposed Statement would be effective for interim or annual financial periods ending after ratification of the Codification, this appendix outlines how the proposed Statement would affect the Codification rather than outlining how the proposed Statement would affect current accounting standards (that will be superseded once the Codification has been ratified).

B2. Accounting guidance on subsequent events is contained in Topic 855, *Subsequent Events*, of the Codification. Currently, however, this Topic only provides links to guidance on subsequent events. Therefore, this proposed Statement would amend Topic 855 to include guidance on subsequent events directly within the Topic.

B3. This proposed Statement also would amend those parts of the Codification that refer to the issuance of financial statements for which the notion of *financial statements available to be issued* also is applicable.

Amendments to the Codification

B4. Amend Topic 855 as follows: [Added text is underlined and deleted text is ~~struck out~~.]

Broad Transactions > 855 Subsequent Events > 10 Overall

855-10-05 Overview and Background

~~05-1 This Subtopic only provides links to guidance on subsequent events. The~~
Subsequent Events Topic provides guidance on principles and requirements for subsequent events. In particular, this Topic sets forth:

- a. The period after the balance sheet date during which management of a reporting entity shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements
- b. The circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements
- c. The disclosures that an entity shall make about events or transactions that occurred after the balance sheet date.

~~05-2 Those seeking guidance on subsequent events generally look to AICPA AU Section 560 of the Codification of Statements on Auditing Standards, “Subsequent~~

Events.” That standard cites two types of subsequent events that can occur after the date of the financial statements but before their issuance.

~~05-3~~—The first type of subsequent event provides additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements. The financial statements would be adjusted for any changes in estimates resulting from the use of such evidence.

~~05-4~~—The second type of subsequent event provides evidence with respect to conditions that arose subsequent to the date of the balance sheet. That type of event may require disclosure but would not result in adjustment of the financial statements.

~~05-5~~—AICPA AU Section 560 should be referred to for additional guidance.

855-10-15 Scope and Scope Exceptions

> Overall Guidance

15-1 The Scope Section of the Overall Subtopic establishes the pervasive scope for all Subtopics of the Subsequent Events Topic. Unless explicitly addressed within specific Subtopics, the following scope guidance applies to all Subtopics of the Subsequent Events Topic.

> Transactions

15-2 The guidance in the Subsequent Events Topic shall be applied in the accounting for and disclosure of subsequent events not addressed in other Topics of the Codification.

15-3 Other Topics in the Codification may address the accounting treatment of events or transactions that occur after the balance sheet date. If an event or transaction is within the scope of another Topic in the Codification, then an entity shall follow the guidance in that Topic, rather than the guidance in this Topic.

15-4 The following are examples (not collectively exhaustive) of other applicable GAAP that contain guidance that is not consistent with the principles in this Topic for the recognition and disclosure of events or transactions that occur after the balance sheet date.

- a. Earnings per Share—See paragraph 260-10-55-12 for guidance on the effect on earnings per share of changes in the number of common shares as a result of a stock dividend or stock split that occurs after the balance sheet date but before the financial statements are issued or available to be issued.
- b. Exit or Disposal Cost Obligations—See paragraph 420-10-35-2 for guidance on changes in estimates of exit or disposal cost obligations.
- c. Callable Debt—See paragraph 470-10-45-11 for guidance on the classification of callable debt when the creditor has, after the balance sheet date, but before the financial statements are issued or available to be issued, waived or lost the right to demand payment for more than one year.

- d. Debt to Be Refinanced—See paragraph 470-10-45-14 for guidance on the classification of short-term obligations when the obligation is refinanced after the balance sheet date but before the financial statements are issued or available to be issued.
- e. Income Taxes—See paragraph 740-10-25-15 for guidance on changes in judgment after the balance sheet date that results in subsequent recognition, derecognition, or change in measurement of a tax position taken in a prior annual period.

855-10-20 Glossary

Subsequent Events

Events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events:

- a. The first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements (that is, recognized subsequent events).
- b. The second type consists of events that provide evidence about conditions that did *not* exist at the date of the balance sheet but arose subsequent to that date (that is, nonrecognized subsequent events).

Financial Statements Are Issued

Financial statements are considered issued when they are widely distributed to shareholders and other financial statement users for general use and reliance in a form and format that complies with GAAP. (U.S. Securities and Exchange Commission [SEC] registrants also are required to consider the guidance in paragraph 855-10-S99-2.)

Financial Statements Are Available to Be Issued

Financial statements are considered available to be issued when they are complete in a form and format that complies with GAAP and all approvals necessary for issuance have been obtained, for example, from management, the board of directors, or significant shareholders.

855-10-25 Recognition

> Recognized Subsequent Events

25-1 An entity shall recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements.

25-2 The following are examples of recognized subsequent events:

- a. If the events that gave rise to litigation had taken place before the balance sheet date and that litigation is settled after the balance sheet date for an amount different from the liability recorded in the accounts, then the settlement amount should be recognized in the financial statements.
- b. Subsequent events affecting the realization of assets, such as receivables and inventories or the settlement of estimated liabilities, should be recognized in the financial statements when those events represent the culmination of conditions that existed over a relatively long period of time. For example, a loss on an uncollectible trade account receivable as a result of a customer's deteriorating financial condition leading to bankruptcy after the balance sheet date ordinarily will be indicative of conditions existing at the balance sheet date, thereby calling for recognition of the effects of the customer's bankruptcy filing in the financial statements before they are issued or are available to be issued.

> Nonrecognized Subsequent Events

25-3 An entity shall not recognize subsequent events that provide evidence about conditions that did *not* exist at the date of the balance sheet but that arose after the balance sheet date.

25-4 The following are examples of nonrecognized subsequent events:

- a. Sale of a bond or capital stock issued after the balance sheet date
- b. A business combination that occurs after the balance sheet date (Topic 805 requires specific disclosures in such cases.)
- c. Settlement of litigation when the event giving rise to the claim took place after the balance sheet date
- d. Loss of plant or inventories as a result of fire or natural disaster that occurred after the balance sheet date
- e. Losses on receivables resulting from conditions (such as a customer's major casualty) arising after the balance sheet date
- f. Changes in the quoted market prices of securities or foreign exchange rates after the balance sheet date
- g. Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the balance sheet date.

25-5 The process involved in creating and distributing the financial statements will vary depending on an entity's management and corporate governance structure as well as statutory and regulatory requirements. An entity that has a historical practice or current expectation of widely distributing its financial statements to its shareholders and other financial statement users (including **public entities**, as that term is used in paragraph 280-10-15-2) shall evaluate subsequent events through the date that the financial statements are issued. All other entities shall evaluate subsequent events through the date that the financial statements are available to be issued. (U.S. Securities and Exchange

Commission [SEC] registrants are also required to consider the guidance in paragraph 855-10-S99-2.)

855-10-50 Disclosure

> Date through Which Subsequent Events Have Been Evaluated

50-1 An entity shall disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued, as discussed in paragraph 20-3.

> Nonrecognized Subsequent Events

50-2 Some nonrecognized subsequent events may be of such a nature that they must be disclosed to keep the financial statements from being misleading. For such events, an entity shall disclose the following:

- a. The nature of the event
- b. An estimate of its financial effect, or a statement that such an estimate cannot be made.

50-3 An entity also shall consider supplementing the historical financial statements with pro forma financial data. Occasionally, a nonrecognized subsequent event may be so significant that disclosure can best be made by means of pro forma financial data. Such data shall give effect to the event as if it had occurred on the balance sheet date. In some situations, an entity also shall consider presenting pro forma statements, usually a balance sheet only, in columnar form on the face of the historical statements.

> Reissuance of Financial Statements

50-4 An entity may occasionally need to reissue financial statements, for example, in reports filed with the SEC or other regulatory agencies. After the original issuance of the financial statements, events or transactions may have occurred that require disclosure in the reissued financial statements to keep them from being misleading. An entity shall not recognize events occurring between the time of original issuance and reissuance of financial statements unless the adjustment is required by GAAP or regulatory requirements. An entity shall make adjustments to the financial statements for the correction of an error (see Topic 250—Accounting Changes and Error Corrections). An entity may consider presenting pro forma financial statements to supplement the historical financial statements in certain circumstances (see paragraph 50-3). Similarly, an entity shall not recognize events or transactions occurring subsequent to the original issuance in financial statements that are reissued in comparative form along with financial statements of subsequent periods unless the adjustment meets the criteria stated in this paragraph or is otherwise required by GAAP.

855-10-60 Relationships

> Property, Plant, and Equipment

60-1 For guidance on the classification of a long-lived asset to be sold when held-for-sale criteria are met after the balance sheet date but before the ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5), see paragraph 360-10-45-13.

> Income Taxes

60-2 For guidance on accounting and disclosure when an election to change an entity's tax status is approved by the tax authority (or filed, if approval is not necessary) early in Year 2 and prior to ~~issuing the financial statements for Year 1~~ being issued or being available to be issued (as discussed in paragraph 855-10-25-5), see paragraphs 740-10-25-34, 740-10-50-4, and 740-10-55-48.

> Entertainment—Films

60-3 For guidance addressing the possible need for a write-down of unamortized film costs as a result of evidence that arises after the date of the balance sheet but before an entity's ~~issues its financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5), see paragraph 926-855-35-1.

> Software

60-4 For guidance on the effect on the timing of revenue recognition when vendor-specific objective evidence of fair value is established by management after the balance sheet date but before the ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5), see paragraphs 985-605-55-93 through 55-95.

B5. Subtopic 205-20 (Presentation and Financial Services > Discontinued Operations) is amended as follows:

a. Paragraph 205-20-55-24:

The evaluation of whether the criteria in paragraph 205-20-45-1 are expected to be met for a component that is either disposed of or classified as held for sale at the statement of financial position date should include significant events or circumstances that occur after the statement of financial position date but before the ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5). This evaluation is solely for the purposes of determining the presentation of discontinued operations pursuant to that paragraph and does not apply to any other guidance in this Subtopic.

B6. Subtopic 235-10 (Notes to Financial Statements > Overall) is amended as follows:

a. Paragraph 235-10-50-1:

Information about the accounting policies adopted by an entity is essential for financial statement users. When financial statements that are issued or are available to be issued (as discussed in paragraph 855-10-25-5) purporting to present fairly financial position, cash flows, and results of operations in accordance with generally accepted accounting principles (GAAP), a description of all significant accounting policies of the entity shall be included as an integral part of the financial statements. In circumstances where it may be appropriate to issue one or more of the basic financial statements without the others, purporting to present fairly the information given in accordance with GAAP, statements so presented also shall include disclosure of the pertinent accounting policies.

B7. Subtopic 250-10 (Accounting Changes and Error Corrections > Overall) is amended as follows:

a. Paragraph 250-10-45-23:

Any error in the financial statements of a prior period discovered after ~~their issuance~~ the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5) shall be reported as an error correction, by restating the prior-period financial statements. Restatement requires all of the following:

- a. The cumulative effect of the error on periods prior to those presented shall be reflected in the carrying amounts of assets and liabilities as of the beginning of the first period presented.
- b. An offsetting adjustment, if any, shall be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period.
- c. Financial statements for each individual prior period presented shall be adjusted to reflect correction of the period-specific effects of the error.

B8. Subtopic 260-10 (Earnings per Share > Overall) is amended as follows:

a. Paragraph 260-10-50-2:

For the latest period for which an income statement is presented, an entity shall provide a description of any transaction that occurs after the end of the most recent period but before ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5) that would have changed materially the number of common shares or potential common shares outstanding at the end of the period if the transaction had occurred before the end of the period. Examples of those transactions

include the issuance or acquisition of common shares; the issuance of warrants, options, or convertible securities; the resolution of a contingency pursuant to a contingent stock agreement; and the conversion or exercise of potential common shares outstanding at the end of the period into common shares.

b. Paragraph 260-10-55-12:

If the number of common shares outstanding increases as a result of a stock dividend or stock split (see Subtopic 505-20) or decreases as a result of a reverse stock split, the computations of basic and diluted EPS shall be adjusted retroactively for all periods presented to reflect that change in capital structure. If changes in common stock resulting from stock dividends, stock splits, or reverse stock splits occur after the close of the period but before ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5), the per-share computations for those and any prior-period financial statements presented shall be based on the new number of shares. If per-share computations reflect such changes in the number of shares, that fact shall be disclosed.

B9. Subtopic 275-10 (Risks and Uncertainties > Overall) is amended as follows:

a. Paragraph 275-10-50-6:

This Subtopic requires discussion of estimates when, based on known information available prior to the ~~issuance of the financial statements~~ being issued or being available to be issued (as discussed in paragraph 855-10-25-5), it is reasonably possible that the estimate will change in the near term and the effect of the change will be material. The estimate of the effect of a change in a condition, situation, or set of circumstances that existed at the date of the financial statements shall be disclosed and the evaluation shall be based on known information available prior to ~~issuance of the financial statements~~ being issued or being available to be issued.

b. Paragraph 275-10-50-8:

Disclosure regarding an estimate shall be made when known information available before ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5) indicates that both of the following criteria are met:

- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events. (The term *reasonably possible* as used in this Subtopic is consistent with its use in Topic 450 to mean that the chance of a future transaction or event occurring is more than remote but less than likely.)

- b. The effect of the change would be material to the financial statements.
- c. Paragraph 275-10-50-16:

Vulnerability from concentrations arises because an entity is exposed to risk of loss greater than it would have had it mitigated its risk through diversification. Such risks of loss manifest themselves differently, depending on the nature of the concentration, and vary in significance. Financial statements shall disclose the concentrations described in paragraph 275-10-50-18 if, based on information known to management before ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5), all of the following criteria are met:

- a. The concentration exists at the date of the financial statements.
 - b. The concentration makes the entity vulnerable to the risk of a near-term severe impact.
 - c. It is at least reasonably possible that the events that could cause the severe impact will occur in the near term.
- d. Paragraph 275-10-55-9:

Although other sources of supply of this particular kind of integrated circuit are currently available, the limited number of such sources and the time it takes to qualify new vendors makes Hi-Tech currently vulnerable to the risk of a near-term severe impact. Disclosure is required because it is considered at least reasonably possible, based on information known to management prior to ~~issuance of the financial statements~~ being issued or being available to be issued (as discussed in paragraph 855-10-25-5), that the events that could cause the severe impact will occur.

B10. Subtopic 310-10 (Receivables > Overall) is amended as follows:

- a. Paragraph 310-10-35-8:

Subtopic 450-20 requires recognition of a loss when both of the following conditions are met:

- a. Information available prior to ~~issuance of the financial statements~~ being issued or being available to be issued (as discussed in paragraph 855-10-25-5) indicates that it is probable that an asset has been impaired at the date of the financial statements.
- b. The amount of the loss can be reasonably estimated.

B11. Subtopic 310-20 (Receivables > Nontransferable Fees and Other Costs) is amended as follows:

a. Paragraph 310-20-25-10:

In accounting for costs associated with loan originations on loans that have not yet been closed, judgment is required to estimate the number of loans in process that will result in a successful loan origination. Origination costs on a loan in process may be deferred until the loan is either closed or considered an unsuccessful effort. If a loan in process is determined to be unsuccessful after the balance sheet date but before the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5), costs that have been deferred through the balance sheet date shall be charged to expense in the period ending with the balance sheet date.

B12. Subtopic 350-20 (Intangibles—Goodwill and Other > Goodwill) is amended as follows:

a. Paragraph 350-20-35-18:

If the second step of the goodwill impairment test is not complete before the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5) and a goodwill impairment loss is probable and can be reasonably estimated, the best estimate of that loss shall be recognized in those financial statements (see Subtopic 450-10).

B13. Subtopic 360-10 (Property, Plant, and Equipment > Overall) is amended as follows:

a. Paragraph 360-10-45-13:

If the criteria in paragraph 360-10-45-9 are met after the balance sheet date but before ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5), a long-lived asset shall continue to be classified as held and used in those financial statements when issued or available to be issued. See ~~Topic 855—Subsequent Events~~ the AICPA Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures, Section 560, Subsequent Events. In addition, information required by paragraph 205-20-50-1(a) shall be disclosed in the notes to financial statements. If the asset (asset group) is tested for recoverability (on a held-and-used basis) as of the balance sheet date, the estimates of future cash flows used in that test shall consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of the future sale of the asset. That assessment made as of the balance sheet date shall not be revised for a decision to sell the asset after the balance sheet date. Because it is difficult to separate the benefit of hindsight when assessing conditions that existed at a prior date, it is important that judgments about those conditions, the need to test an asset for recoverability, and the application of a recoverability test be made and documented together with supporting evidence on a timely basis. An impairment loss, if any, to be recognized shall be measured as the amount

by which the carrying amount of the asset (asset group) exceeds its fair value at the balance sheet date.

B14. Subtopic 405-30 (Liabilities > Insurance—Related Assessments) is amended as follows:

a. Paragraph 405-30-25-1(a):

Probability of assessment. An assessment has been imposed or information available before the ~~issuance of the~~ financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5) indicates it is probable that an assessment will be imposed.

B15. Subtopic 410-30 (Asset Retirement and Environmental Obligations > Environmental Obligations) is amended as follows:

a. Paragraph 410-30-25-1(a):

Information available before ~~issuance of the~~ financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5) indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements.

B16. Subtopic 450-20 (Contingencies > Loss Contingencies) is amended as follows:

a. Paragraph 450-20-25-2(a):

Information available prior to ~~issuance of the~~ financial statements being issued or being available to be issued (as discussed in paragraph 855-10-25-5) indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. Date of the financial statements means the end of the most recent accounting period for which financial statements are being presented. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.

b. Paragraph 450-20-25-6:

After the date of an entity's financial statements but before those financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5), information may become available indicating that an asset was impaired or a liability was incurred after the date of the financial statements or that there is at least a reasonable possibility that an asset was impaired or a liability was incurred after that date. The information may relate to a loss contingency that existed at the date of the financial statements, for example, an asset that was not insured at the date of the financial statements. On the other hand, the information may relate to a loss contingency that did not exist at the date of the financial statements, for

example, threat of expropriation of assets after the date of the financial statements or the filing for bankruptcy by an entity whose debt was guaranteed after the date of the financial statements. In none of the cases cited in this paragraph was an asset impaired or a liability incurred at the date of the financial statements, and the condition for accrual in paragraph 450-20-25-2(a) is, therefore, not met.

c. Paragraph 450-20-55-11:

Accrual may be appropriate for litigation, claims, or assessments whose underlying cause is an event occurring on or before the date of an entity's financial statements even if the entity does not become aware of the existence or possibility of the lawsuit, claim, or assessment until after the date of the financial statements. If those financial statements have not been issued or are not yet available to be issued (as discussed in paragraph 855-10-25-5), accrual of a loss related to the litigation, claim, or assessment would be required if the probability of loss is such that the condition in paragraph 450-20-25-2(a) is met and the amount of loss can be reasonably estimated.

d. Paragraph 450-20-55-12(b):

The progress of the case (including progress after the date of the financial statements but before those statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5))

e. Paragraph 450-20-55-17:

As a condition for accrual of a loss contingency, the condition in paragraph 450-20-25-2(a) requires that information available prior to the ~~issuance of~~ financial statements being issued or being available to be issued (as discussed in paragraph 855-10-25-5) indicate that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. Accordingly, accrual would clearly be inappropriate for litigation, claims, or assessments whose underlying cause is an event or condition occurring after the date of financial statements but before those financial statements are issued or are available to be issued. For example, an entity would not accrue a suit for damages alleged to have been suffered as a result of an accident that occurred after the date of the financial statements. However, disclosure may be required by paragraphs 450-20-50-9 through 50-10.

f. Paragraph 450-20-55-23:

An entity is involved in litigation at the close of its fiscal year and information available indicates that an unfavorable outcome is probable. Subsequently, after a trial on the issues, a verdict unfavorable to the entity is handed down, but the amount of damages remains unresolved at the time the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5). Although the entity is unable to estimate the exact amount of loss, its reasonable estimate at the time is that the judgment will be for not less than \$3 million or more than \$9 million. No amount in that range appears at the time to be a better estimate than any other amount.

g. Paragraph 450-20-55-27:

Assume the same facts as in Case A, except it is probable that a verdict will be unfavorable and the trial has not been completed before the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5). In that situation, the condition in paragraph 450-20-25-2(a) would be met because information available to the entity indicates that an unfavorable verdict is probable. An assessment that the range of loss is between \$3 million and \$9 million would meet the condition in paragraph 450-20-25-2(b).

B17. Subtopic 470-10 (Debt > Overall) is amended as follows:

a. Paragraph 470-10-45-11(a):

The creditor has waived or subsequently lost (for example, the debtor has cured the violation after the balance sheet date and the obligation is not callable at the time the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5)) the right to demand repayment for more than one year (or operating cycle, if longer) from the balance sheet date. If the obligation is callable because of violations of certain provisions of the debt agreement, the creditor needs to waive its right with regard only to those violations.

b. Paragraph 470-10-45-14:

A short-term obligation shall be excluded from current liabilities if the entity intends to refinance the obligation on a long-term basis (see paragraph 470-10-05-7) and the intent to refinance the short-term obligation on a long-term basis is supported by an ability to consummate the refinancing demonstrated in either of the following ways:

- a. Post-balance-sheet-date issuance of a long-term obligation or equity securities. After the date of an entity's balance sheet but before that balance sheet is issued or is available to be issued (as discussed in

paragraph 855-10-25-5), a long-term obligation or equity securities have been issued for the purpose of refinancing the short-term obligation on a long-term basis. If equity securities have been issued, the short-term obligation, although excluded from current liabilities, shall not be included in owners' equity.

- b. Financing agreement. Before the balance sheet is issued or is available to be issued (as discussed in paragraph 855-10-25-5), the entity has entered into a financing agreement that clearly permits the entity to refinance the short-term obligation on a long-term basis on terms that are readily determinable, and all of the following conditions are met:
 1. The agreement does not expire within one year (or operating cycle—see paragraph 470-10-05-7) from the date of the entity's balance sheet and during that period the agreement is not cancelable by the lender or the prospective lender or investor (and obligations incurred under the agreement are not callable during that period) except for violation of a provision with which compliance is objectively determinable or measurable. For purposes of this Subtopic, violation of a provision means failure to meet a condition set forth in the agreement or breach or violation of a provision such as a restrictive covenant, representation, or warranty, whether or not a grace period is allowed or the lender is required to give notice. Financing agreements cancelable for violation of a provision that can be evaluated differently by the parties to the agreement (such as a material adverse change or failure to maintain satisfactory operations) do not comply with this condition.
 2. No violation of any provision in the financing agreement exists at the balance sheet date and no available information indicates that a violation has occurred thereafter but before ~~the issuance of the balance sheet~~ is issued or is available to be issued (as discussed in paragraph 855-10-25-5), or, if one exists at the balance sheet date or has occurred thereafter, a waiver has been obtained.
 3. The lender or the prospective lender or investor with which the entity has entered into the financing agreement is expected to be financially capable of honoring the agreement.

- c. Paragraph 470-10-45-15:

Repayment of a short-term obligation before funds are obtained through a long-term refinancing requires the use of current assets. Therefore, if a short-term obligation is repaid after the balance sheet date and subsequently a long-term obligation or equity securities are issued whose proceeds are used to replenish current assets before the balance sheet is issued or is available to be issued (as discussed in paragraph 855-10-25-5), the short-term obligation shall not be excluded from current liabilities at the balance

sheet date. See Example 5 (paragraph 470-10-55-33) for an illustration of this guidance.

d. Paragraph 470-10-45-21:

Replacement of a short-term obligation with another short-term obligation after the date of the balance sheet but before the balance sheet is issued or is available to be issued (as discussed in paragraph 855-10-25-5) is not, by itself, sufficient to demonstrate an entity's ability to refinance the short-term obligation on a long-term basis. If, for example, the replacement is made under the terms of a revolving credit agreement that provides for renewal or extension of the short-term obligation for an uninterrupted period extending beyond one year (or operating cycle—see paragraph 470-10-05-7) from the date of the balance sheet, the revolving credit agreement must meet the conditions in paragraph 470-10-45-14(b) to justify excluding the short-term obligation from current liabilities. Similarly, if the replacement is a roll-over of commercial paper accompanied by a standby credit agreement, the standby agreement must meet the conditions in that paragraph to justify excluding the short-term obligation from current liabilities.

e. Paragraph 470-10-55-4(e):

The borrower is in violation of the current covenant requirement at the balance sheet date and, subsequent to the balance sheet date but before ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5), obtains a waiver. The same or a more restrictive covenant must be met at the compliance date in three months, and it is probable that the borrower will fail to meet that requirement at that subsequent date.

f. Paragraph 470-10-55-35:

The \$1,000,000 of commercial paper liquidated in July would be classified as a current liability in the Entity's balance sheet at June 30, 1976. The \$2,000,000 of commercial paper liquidated in September 1976 but refinanced by the long-term debt offering in August 1976 would be excluded from current liabilities in balance sheets at the end of June 1976, July 1976, and August 1976. It should be noted that the existence of a financing agreement at the date ~~of issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5) rather than a completed financing at that date would not change these classifications.

B18. Subtopic 470-60 (Debt > Troubled Debt Restructuring by Debtors) is amended as follows:

a. Paragraph 470-60-45-2:

A troubled debt restructuring of a short-term obligation after the date of a debtor's balance sheet but before that balance sheet is issued or is available to be issued (as discussed in paragraph 855-10-25-5) may affect the classification of that obligation in accordance with Subtopic 470-10.

B19. Subtopic 505-10 (Equity > Overall) is amended as follows:

a. Paragraph 505-10-45-2:

An entity may receive a note, rather than cash, as a contribution to its equity. The transaction may be a sale of capital stock or a contribution to paid-in capital. Reporting the note as an asset is generally not appropriate, except in very limited circumstances in which there is substantial evidence of ability and intent to pay within a reasonably short period of time. Consequently, the predominant practice is to offset the notes and stock in the equity section. However, such notes may be recorded as an asset if collected in cash before ~~issuance of the financial statements are issued~~ or are available to be issued (as discussed in paragraph 855-10-25-5).

B20. Subtopic 605-35 (Revenue Recognition > Construction-Type and Production-Type Contracts) is amended as follows:

a. Paragraph 605-35-25-85:

Adjustments to the original estimates of the total contract revenue, total contract cost, or extent of progress toward completion are often required as work progresses under the contract and as experience is gained, even though the scope of the work required under the contract may not change. The nature of accounting for contracts is such that refinements of the estimating process for changing conditions and new developments are continuous and characteristic of the process. Additional information that enhances and refines the estimating process is often obtained after the balance sheet date but before the ~~issuance of the financial statements are issued~~ or are available to be issued (as discussed in paragraph 855-10-25-5); except as indicated in paragraph 605-35-50-10, such information should result in an adjustment of the unissued financial statements.

b. Paragraph 605-35-55-4:

Shortly after December 31, 19X2, but before the 19X2 financial statements were issued (or were available to be issued, as discussed in paragraph 855-10-25-5), subsoil conditions were discovered at the site of Project A that will require Rivet to incur substantial additional, unbudgeted costs in completing the project. The nature of the subsoil problem is unusual in the region in which Rivet operates. The additional estimated costs are not considered to be a normal, recurring contract-accounting adjustment. Engineers have estimated the additional construction cost to be 10 to 40 %

of the original estimated construction cost, with 15 % (\$1.5 million) being their best estimate, and delays in construction are expected to add an additional 3 to 7 % to the cost of construction, depending on the time involved, with 5 % (\$500,000) being the best estimate. Accordingly, Rivet has revised upward its estimate of costs to complete the project by \$2 million. Project A, which was begun in 19X1 under a fixed-price contract, is still expected to be completed in the coming year (19X3), and it is still expected to be profitable.

B21. Subtopic 715-30 (Compensation—Retirement Benefits > Defined Benefit Plans—Pension) is amended as follows:

a. Paragraph 715-30-55-144:

Another example illustrating the need to meet the criteria inherent in the definition of a settlement is a situation in which an employer decides in 20X1 to terminate its pension plan, withdraw excess plan assets, and establish a successor pension plan, but is unable to effect the transactions, which include the settlement of the vested benefit obligation, until regulatory approval is obtained. The purchase of nonparticipating annuity contracts occurs in January 20X2 after regulatory approval has been obtained and before issuance of the 20X1 financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5). A settlement gain or loss is not recognized until all three criteria for a settlement are satisfied. That does not occur until January 20X2. In this situation, adjustment of the 20X1 financial statements would not be appropriate, although disclosure of the event may be required.

B22. Subtopic 740-10 (Income Taxes > Overall) is amended as follows:

a. Paragraph 740-10-25-8:

If the more-likely-than-not recognition threshold is not met in the period for which a tax position is taken or expected to be taken, an entity shall recognize the benefit of the tax position in the first interim period that meets any one of the following conditions:

- a. The more-likely-than-not recognition threshold is met by the reporting date.
- b. The tax position is effectively settled through examination, negotiation or litigation.
- c. The statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired.

Accordingly, a change in facts subsequent to the reporting date but prior to the issuance of the financial statements being issued or being available to be issued (as discussed in paragraph 855-10-25-5) shall be recognized in the period in which the change in facts occurs.

b. Paragraph 740-10-25-34:

For example, if an election to change an entity's tax status is approved by the tax authority (or filed, if approval is not necessary) early in Year 2 and before issuing the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5) for Year 1, the effect of that change in tax status shall not be recognized in the financial statements for Year 1.

c. Paragraph 740-10-50-4:

In the event that a change in an entity's tax status becomes effective after year-end in Year 2 but before the financial statements for Year 1 are issued or are available to be issued (as discussed in paragraph 855-10-25-5), the entity's financial statements for Year 1 shall disclose the change in the entity's tax status for Year 2 and the effects of that change, if material.

d. Paragraph 740-10-55-48:

Under current U.S. federal tax law, approval of an entity's change from taxable C corporation status to nontaxable S corporation status is automatic if the criteria for S corporation status are met. If an entity meets those criteria but has not changed to S corporation status, a strategy to change to nontaxable S corporation status would not permit an entity to not recognize deferred taxes because a change in tax status is a discrete event. Paragraph 740-10-25-32 requires that the effect of a change in tax status be recognized at the date that the change in tax status occurs, that is, at the date that the change is approved by the tax authority (or on the date of filing the change if approval is not necessary). For example, as required by paragraph 740-10-25-34, if an election to change an entity's tax status is approved by the tax authority (or filed, if approval is not necessary) early in Year 2 and prior to issuing the Year 1 financial statements being issued or being available to be issued (as discussed in paragraph 855-10-25-5) for Year 1, the effect of that change in tax status shall not be recognized in the financial statements for Year 1.

e. Paragraph 740-10-55-117:

Paragraphs 740-10-25-6 and 740-10-25-8 require that tax positions be recognized and measured based on information available at the reporting date. This Example demonstrates the effect of information becoming available after the reporting date but before the issuance of the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5).

f. Paragraph 740-10-55-118:

Entity A has evaluated a tax position at its most recent reporting date and has concluded that the position meets the more-likely-than-not recognition threshold. In evaluating the tax position for recognition, Entity A considered all relevant sources of tax law, including a court case in which the taxing authority has fully disallowed a similar tax position with an unrelated entity (Entity B). The taxing authority and Entity B are aggressively litigating the matter. Although Entity A was aware of that court case at the recent reporting date, management determined that the more-likely-than-not recognition threshold had been met. Subsequent to the reporting date, but prior to ~~the issuance of the~~ financial statements being issued or being available to be issued (as discussed in paragraph 855-10-25-5), the taxing authority prevailed in its litigation with Entity B, and Entity A concludes that it is no longer more likely than not that it will sustain the position.

B23. Subtopic 805-10 (Business Combinations > Overall) is amended as follows:

a. Paragraph 805-10-50-1:

The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:

- a. During the current reporting period
- b. After the reporting date but before the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5).

b. Paragraph 805-10-50-4:

If the acquisition date of a business combination is after the reporting date but before the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5), the acquirer shall disclose the information required by paragraph 805-10-50-2 unless the initial accounting for the business combination is incomplete at the time the financial statements are issued or are available to be issued. In that situation, the acquirer shall describe which disclosures could not be made and the reason why they could not be made.

B24. Subtopic 805-20 (Business Combinations > Identifiable Assets and Liabilities and Any Noncontrolling Interest) is amended as follows:

a. Paragraph 805-20-50-3:

If the acquisition date of a business combination is after the reporting date but before the financial statements are issued or are available to be issued, (as discussed in paragraph 855-10-25-5), the acquirer shall disclose the information required by paragraph 805-20-50-1 unless the initial accounting for the business combination is incomplete at the time the financial statements are issued or are available to be issued. In that situation, the

acquirer shall describe which disclosures could not be made and the reason why they could not be made.

B25. Subtopic 805-30 (Business Combinations > Goodwill or Gain from Bargain Purchase, Including Consideration Transferred) is amended as follows:

a. Paragraph 805-30-50-1(e):

If the acquirer is required to disclose segment information in accordance with Subtopic 280-10, the amount of goodwill by reportable segment. If the assignment of goodwill to reporting units required by paragraphs 350-20-35-41 through 35-44 has not been completed as of the date the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5), the acquirer shall disclose that fact.

b. Paragraph 805-30-50-3:

If the acquisition date of a business combination is after the reporting date but before the financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5), the acquirer shall disclose the information required by paragraph 805-30-50-1 unless the initial accounting for the business combination is incomplete at the time the financial statements are issued or are available to be issued. In that situation, the acquirer shall describe which disclosures could not be made and the reason why they could not be made.

B26. Subtopic 912-275 (Contractors—Federal Government > Risks and Uncertainties) is amended as follows:

a. Paragraph 912-275-50-3:

If the contractor's claim includes items of known controversial nature it shall be stated at the amount estimated to be collectible. If a particular termination claim or part thereof is so uncertain in amount that it cannot be reasonably estimated, it is preferable not to give effect to that part of the claim in the financial statements. If the total of such undeterminable elements is material, the circumstances shall be disclosed in statements issued or available to be issued (as discussed in paragraph 855-10-25-5) before the removal of the uncertainty. In an extreme circumstance involving undeterminable claims, consideration shall be given to delaying the issuance of financial statements until necessary data are available.

b. Paragraph 912-275-50-4:

The effect of a contract termination shall be reflected in the financial statements of the contractor in the period in which the termination occurs, or earlier if the termination is a subsequent event occurring ~~before issuance of~~ the financial statements are issued or are available to be issued (as discussed

in paragraph 855-10-25-5) and attributable to conditions that existed at the date of the balance sheet. If sufficient information is not available to predict the effect of a very recent termination, then the best information available shall be disclosed in the notes to financial statements in conformity with Topic 450. Paragraph 912-605-25-22 addresses the effective date of termination.

B27. Subtopic 926-20 (Entertainment—Films > Other Assets—Film Costs) is amended as follows:

a. Paragraph 926-20-35-18:

For films released before or after the date of the balance sheet for which evidence of the possible need for a write-down of unamortized film costs occurs after the date of the balance sheet but before ~~an entity issues its the~~ financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5), a rebuttable presumption exists that the conditions leading to the write-off existed at the date of the balance sheet. In such situations, an entity shall adjust its financial statements for the effect of any changes in estimates resulting from the use of the subsequent evidence. An entity can overcome the rebuttable presumption if it can demonstrate that the conditions leading to the write-down did not exist at the date of the balance sheet.

B28. Subtopic 926-855 (Entertainment—Films > Subsequent Events) is amended as follows:

a. Paragraph 926-855-35-1:

As indicated in paragraph 926-20-35-18, for films released before or after the date of the balance sheet for which evidence of the possible need for a write-down of unamortized film costs occurs after the date of the balance sheet but before ~~an entity issues its the~~ financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5), a rebuttable presumption exists that the conditions leading to the write-off existed at the date of the balance sheet. In such situations, an entity shall adjust its financial statements for the effect of any changes in estimates resulting from the use of the subsequent evidence. An entity can overcome the rebuttable presumption if it can demonstrate that the conditions leading to the write-down did not exist at the date of the balance sheet.

B29. Subtopic 932-360 (Extractive Activities—Oil and Gas > Property, Plant, and Equipment) is amended as follows:

a. Paragraph 932-360-35-21:

Information that becomes available after the end of the period covered by the financial statements but before those financial statements are issued or

are available to be issued (as discussed in paragraph 855-10-25-5) shall be taken into account in evaluating conditions that existed at the balance sheet date, for example, in assessing unproved properties (see paragraph 932-360-35-11) and in determining whether an exploratory well or exploratory-type stratigraphic test well had found proved reserves (see paragraphs 932-360-35-18 through 35-20).

b. Paragraph 932-360-40-10:

If an exploratory well or exploratory-type stratigraphic test well is in progress at the end of a period and the well is determined not to have found proved reserves before the financial statements for that period are issued or are available to be issued (as discussed in paragraph 855-10-25-5), the costs incurred through the end of the period, net of any salvage value, shall be charged to expense for that period. Previously issued financial statements shall not be retroactively restated.

B30. Subtopic 942-505 (Financial Services—Depository and Lending > Equity) is amended as follows:

a. Paragraph 942-505-50-1(a)(6):

Whether subsequent to the balance sheet date and prior to ~~issuance of the~~ financial statements being issued or being available to be issued (as discussed in paragraph 855-10-25-5), management believes any events or changes have occurred to change the institution's prompt corrective action category.

B31. Subtopic 960-205 (Plan Accounting—Defined Benefit Pension Plans > Presentation of Financial Statements) is amended as follows:

a. Paragraph 960-205-50-1(h):

Unusual or infrequent events or transactions occurring after the latest benefit information date but before ~~issuance of the~~ financial statements are issued or are available to be issued (as discussed in paragraph 855-10-25-5) that might significantly affect the usefulness of the financial statements in an assessment of the plan's present and future ability to pay benefits. For example, a plan amendment adopted after the latest benefit information date that significantly increases future benefits that are attributable to employees' service rendered before that date shall be disclosed. If reasonably determinable, the effects of such events or transactions shall be disclosed. If such effects are not quantified, the reasons why they are not reasonably determinable shall be disclosed. This guidance does not contemplate disclosure of normal changes after the benefit information date, such as benefits attributable to service rendered after that date.

B32. Subtopic 965-205 (Plan Accounting—Health and Welfare Benefit Plans > Presentation of Financial Statements) is amended as follows:

a. Paragraph 965-205-50-1(h):

Unusual or infrequent events or transactions occurring after the financial statement date, but before ~~issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5), that might significantly affect the usefulness of the financial statements in an assessment of the plan's present and future ability to pay benefits. For example, all of the following shall be disclosed:

1. A plan amendment adopted after the latest financial statement date that significantly increases future benefits attributable to an employee's service rendered before that date
2. A significant change in the market value of a significant portion of the plan's assets
3. The emergence of a catastrophic claim.

If reasonably determinable, the effects of such events or transactions shall be disclosed. If such effects are not reasonably determinable, the reasons why they are not quantifiable shall be disclosed.

B33. Subtopic 985-605 (Software > Revenue Recognition) is amended as follows:

a. Paragraph 985-605-55-27:

For example, on December 1, a calendar-year-end software vendor enters into a licensing arrangement with payments due in installments over two years, beginning in May of the following year. After December 31 but before the vendor issues its year-end financial statements (or before the financial statements are available to be issued, as discussed in paragraph 855-10-25-5), the customer pays the full amount due. As of December 1, the software vendor has met all other conditions of revenue recognition except that it does not have a standard business practice of using long-term or installment contracts.

b. Paragraph 985-605-55-94:

Vendor-specific objective evidence of fair value may be established by management after the balance sheet date but before ~~the issuance of the financial statements~~ are issued or are available to be issued (as discussed in paragraph 855-10-25-5), either by separate sales or by establishment of a price by a pricing committee. However, an entity may not use such evidence to recognize revenue at the balance sheet date in accordance with this Subtopic.

c. Paragraph 985-605-55-95:

Establishment of vendor-specific objective evidence after the balance sheet date is a nonrecognized~~Type II~~ subsequent event, as discussed in Topic 855—Subsequent Events~~AICPA AU Section 560 of the Codification of Statements on Auditing Standards~~, “Subsequent Events” (see paragraph ~~855-10-05-4~~). As a result, revenue should be deferred at the balance sheet date in accordance with paragraphs 985-605-25-9 through 25-11. However, if, after the balance sheet date, management merely compiles evidence that existed at the balance sheet date, that evidence should be used to assess whether there is sufficient vendor-specific objective evidence (in accordance with paragraphs 985-605-25-6 through 25-7) to recognize revenue at the balance sheet date.