Financial Accounting Standards Board

ORIGINAL PRONOUNCEMENTS

AS AMENDED

Statement of Financial Accounting Standards No. 165

Subsequent Events

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STATUS

Issued: May 2009

Effective Date: Prospectively for interim or annual financial periods ending after June 15, 2009

Affects: Amends ARB 53, Chapter 11C, paragraph 19
Amends APB 22, paragraph 8
Amends FAS 5, paragraphs 8(a), 11, and 34 through 36
Amends FAS 6, paragraphs 11 and 14
Amends FAS 15, footnote 10
Amends FAS 19, paragraph 39
Amends FAS 35, paragraph 28(i)
Amends FAS 128, paragraphs 41 and 54
Amends FAS 141(R), paragraphs 67(b), 68(l), and 70
Amends FAS 142, paragraph 22
Amends FAS 144, paragraph 33 and footnote 20
Amends FAS 154, paragraph 25
Amends FIN 8, paragraphs 3 and 4
Amends FIN 14, paragraphs 4 and 5
Amends FIN 36, paragraph 2
Amends FIN 48, paragraph A31
Amends SOP 81-1, paragraph 82
Amends SOP 92-6, paragraph 64
Amends SOP 94-6, paragraphs 13, 21, A-38, and A-52
Amends SOP 96-1, paragraph 105
Amends SOP 00-2, paragraph 48

Affected by: No other pronouncements

Issues Discussed by FASB Emerging Issues Task Force (EITF)

Affects: Modifies EITF Issues No. 86-30 and 03-13 and Topic D-80

Interpreted by: No EITF Issues

Related Issues: No EITF Issues

SUMMARY

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

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

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

In accordance with this Statement, an entity should apply the requirements to interim or annual financial periods ending after June 15, 2009.

What Is the Scope of This Statement?

This Statement should be applied to the accounting for and disclosure of subsequent events. This Statement does not apply 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 Statement would apply to both interim financial statements and annual financial statements.

How Will This Statement Change Current Practice?

This Statement should not result in significant changes in the subsequent events that an entity reports—either through recognition or disclosure—in its financial statements. This Statement introduces the concept of financial statements being *available to be issued.* It requires 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 should 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 Statement on Convergence with International Financial Reporting Standards?

This Statement does 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 Statement requires evaluation of subsequent events through the date that the financial statements are issued or are available to be issued.

Statement of Financial Accounting Standards No. 165

Subsequent Events

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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.

All paragraphs in this Statement have equal authority.
Paragraphs in **bold** set out the main principles.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Scope and Scope Exceptions

2. **This Statement shall be applied to 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 but before the financial statements are issued or are available to be issued. 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. The following are examples of other applicable GAAP that prescribes the accounting and disclosures for specific subsequent events. Note this is not meant to be an exhaustive list.

a. FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*
b. FASB Statement No. 128, *Earnings per Share*
c. FASB Statement No. 5, *Accounting for Contingencies.*

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 after 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] staff views about the issuance of financial statements are included in the guidance in Emerging Issues Task Force [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, and/or significant shareholders. 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 current expectation of widely distributing its financial statements to its shareholders and other financial statement users (including a *public entity,* as defined below) 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.

7. *Public entity.* A public entity is any entity that meets any of the following conditions:

a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.
b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).
c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.
d. It is required to file or furnish financial statements with the SEC.
e. It is controlled by an entity covered by criteria (a) through (d).

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 but before the financial statements are issued or are available to be issued, for an amount different from the liability recorded in the accounts, then the settlement amount should be considered in estimating the amount of liability recognized in the financial statements at the balance sheet date.
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 but before the financial statements are issued or are available to be issued ordinarily will be indicative of conditions existing at the balance sheet date. Thus, the effects of the customer's bankruptcy filing shall be considered in determining the amount of uncollectible trade accounts receivable recognized in the financial statements at the balance sheet date.

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 arose after the balance sheet date but before financial statements are issued or are available to be issued.**

11. The following are examples of nonrecognized subsequent events:

a. Sale of a bond or capital stock issued after the balance sheet date but before financial statements are issued or are available to be issued
b. A business combination that occurs after the balance sheet date but before financial statements are issued or are available to be issued (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 but before financial statements are issued or are available to be issued
d. Loss of plant or inventories as a result of fire or natural disaster that occurred after the balance sheet date but before financial statements are issued or are available to be issued
e. Losses on receivables resulting from conditions (such as a customer's major casualty) arising after the balance sheet date but before financial statements are issued or are available to be issued
f. Changes in the fair value of assets or liabilities (financial or nonfinancial) or foreign exchange rates after the balance sheet date but before financial statements are issued or are available to be issued
g. Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the balance sheet date but before financial statements are issued or are available to be issued.

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 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 the financial statements were issued or available to be issued and the time the financial statements were reissued unless the adjustment is required by GAAP or regulatory requirements. Similarly, an entity shall not recognize events or transactions occurring after the financial statements were issued or were available to be issued in financial statements that are later reissued in comparative form along with financial statements of subsequent periods unless the adjustment meets the criteria stated in this paragraph. An entity shall disclose the date through which subsequent events have been evaluated in both the originally issued financial statements and the reissued financial statements.

EFFECTIVE DATE AND TRANSITION

16. This Statement shall be effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively.

The provisions of this Statement need not be applied to immaterial items.

This Statement was adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

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

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 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 codify all authoritative U.S. accounting guidance 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 Statement, these projects include FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* and guidance about a 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.

A3. In October 2008, the Board issued an Exposure Draft, *Subsequent Events,* for a 60-day comment period. Twenty-two organizations and individuals commented on the Exposure Draft. The Board considered those comments during its redeliberations of the issues addressed by the Exposure Draft in a subsequent public Board meeting.

Scope

A4. 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.

A5. The Board decided that the project should 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.

A6. 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 Statement. The following are examples of GAAP that conflict with this 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 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. 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 Statement—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 provides the SEC's staff view on retroactive adjustment of such changes in the capital structure throughout the financial statements, not just in earnings per share.
c. FASB Statement No. 5, *Accounting for Contingencies,* paragraph 17—"The Board has not reconsidered *ARB No. 50* with respect to gain contingencies. Accordingly, the following provisions of paragraphs 3 and 5 of that Bulletin shall continue in effect:

   a. Contingencies that might result in gains usually are not reflected in the accounts since to do so might be to recognize revenue prior to its realization.
   b. Adequate disclosure shall be made of contingencies that might result in gains, but care shall be exercised to avoid misleading implications as to the likelihood of realization."

   Analysis of conflict with this Statement—Statement 5 automatically treats all gain contingencies as nonrecognized subsequent events as of the balance sheet date.

A7. Several respondents to the Exposure Draft said that there should be one standard for subsequent events without a scope exception for conflicting literature. Additionally, some Board members were reluctant to issue a standard articulating a principle that would be immediately subject to numerous scope exceptions. However, the Board 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 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

A8. 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 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.]

A9. 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 are subject to this Statement have their financial statements audited, and others 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.

A10. As part of redeliberations, 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 Statement.

A11. The Board concluded that this Statement requires 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 entities (as defined in paragraph 7 of this Statement) and other entities that have a 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 will 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.

A12. Several respondents to the Exposure Draft requested that the Board provide additional guidance on when an entity should use the issued date or available-to-be issued date. The Board concluded that management must use judgment in determining whether they have the current expectation of widely distributing their financial statements.

Effective Date and Transition

A13. In the Exposure Draft, the Board proposed that this Statement should be effective after the ratification of the Codification and that it should be applied prospectively. Some respondents to the Exposure Draft said that there is a risk that the guidance could become effective during an audit or review engagement and be overlooked if the issuance of the guidance was contained within the Codification itself. As such, the Board decided that this Statement is effective for interim or annual financial periods ending after June 15, 2009. The Board expects that this Statement will not result in a change in current practice. In addition, the Board concluded that a prospective transition method will avoid any possible concerns about whether the reporting of subsequent events in prior reporting periods should be reconsidered.

Benefits and Costs

A14. 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.

A15. The Board believes that this 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 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 Statement benefits the convergence of U.S. GAAP and IFRSs by requiring disclosure of the date through which an entity has evaluated any subsequent events.

A16. Because this 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 Statement does not impose any significant costs on its constituents.

Appendix B

AMENDMENTS TO EXISTING PRONOUNCEMENTS

B1. ARB No. 43, Chapter 11C, "Government Contracts—Terminated War and Defense Contracts," is amended as follows: [Added text is <u>underlined</u> and deleted text is ~~struck out~~.]

a. Paragraph 19:

> When the contractor's claim includes items of known controversial nature it should be stated at the amount estimated to be collectible. When 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; but if the total of such undeterminable elements is material, the circumstances should be disclosed in statements issued <u>or available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*)</u> before the removal of the uncertainty. In an extreme case involving undeterminable claims, consideration should be given to delaying the issuance of financial statements until necessary data are available.

B2. APB Opinion No. 22, *Disclosure of Accounting Policies,* is amended as follows:

a. Paragraph 8, as amended:

> The Board concludes that information about the accounting policies adopted by a reporting entity is essential for financial statement users. When financial statements are issued or are available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) purporting to present fairly financial position, cash flows, and results of operations in accordance with generally accepted accounting principles, a description of all significant accounting policies of the reporting entity should 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 generally accepted accounting principles, statements so presented should also include disclosure of the pertinent accounting policies.

B3. FASB Statement No. 5, *Accounting for Contingencies,* is amended as follows:

a. Paragraph 8(a):

> Information available prior to ~~issuance of~~ the financial statements being issued or being available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements.[4] 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 11:

> After the date of an enterprise's financial statements but before those financial statements are issued or are available to be issued (appropriate date determined in accordance with Statement 165), 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, e.g., 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, e.g., threat of expropriation of assets after the date of the financial statements or the filing for bankruptcy by an enterprise 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 8(a) is, therefore, not met. Disclosure of those kinds of losses or loss contingencies may be necessary, however, to keep the financial statements from being misleading. If disclosure is deemed necessary, the financial statements shall indicate the nature of the loss or loss contingency and give an estimate of the amount or range of loss or possible loss or state that such an estimate cannot be made. Occasionally, in the case of a loss arising after the date of the financial statements where the amount of asset impairment or liability incurrence can be reasonably estimated, disclosure may best be made by supplementing the historical financial statements with pro forma financial data giving effect to the loss as if it had occurred at the date of the financial statements. It may be desirable to present pro forma statements, usually a balance sheet only, in columnar form on the face of the historical financial statements.

c. Paragraph 34:

> As a condition for accrual of a loss contingency, paragraph 8(a) requires that information available prior to the ~~issuance of~~ financial statements being issued or being available to be issued (appropriate date determined in accordance with Statement 165) 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 (appropriate date determined in accordance with Statement 165), for example, a suit for damages alleged to have

been suffered as a result of an accident that occurred after the date of the financial statements. Disclosure may be required, however, by paragraph 11.

d. Paragraph 35:

On the other hand, accrual may be appropriate for litigation, claims, or assessments whose underlying cause is an event occurring on or before the date of an enterprise's financial statements even if the enterprise 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 (appropriate date determined in accordance with Statement 165), 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 8(a) is met and the amount of loss can be reasonably estimated.

e. Paragraph 36:

If the underlying cause of the litigation, claim, or assessment is an event occurring before the date of an enterprise's financial statements, the probability of an outcome unfavorable to the enterprise must be assessed to determine whether the condition in paragraph 8(a) is met. Among the factors that should be considered are the nature of the litigation, claim, or assessment, 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, with the appropriate date determined in accordance with Statement 165), the opinions or views of legal counsel and other advisers, the experience of the enterprise in similar cases, the experience of other enterprises, and any decision of the enterprise's management as to how the enterprise intends to respond to the lawsuit, claim, or assessment (for example, a decision to contest the case vigorously or a decision to seek an out-of-court settlement). The fact that legal counsel is unable to express an opinion that the outcome will be favorable to the enterprise should not necessarily be interpreted to mean that the condition for accrual of a loss in paragraph 8(a) is met.

B4. FASB Statement No. 6, *Classification of Short-Term Obligations Expected to Be Refinanced,* is amended as follows:

a. Paragraph 11:

The enterprise's 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 enterprise's balance sheet but before that balance sheet is issued or is available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*), a long-term obligation or equity securities[2] have been issued for the purpose of refinancing the short-term obligation on a long-term basis; or
b. *Financing agreement.* Before the balance sheet is issued or is available to be issued (appropriate date determined in accordance with Statement 165), the enterprise has entered into a financing agreement that clearly permits the enterprise 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:
   i. The agreement does not expire within one year (or operating cycle—see paragraph 2) from the date of the enterprise'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[3] with which compliance is objectively determinable or measurable.[4]
   ii. 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 prior to ~~the issuance of~~ the balance sheet being issued or being available to be issued (appropriate date determined in accordance with Statement 165), or, if one exists at the balance-sheet date or has occurred thereafter, a waiver has been obtained.

iii. The lender or the prospective lender or investor with which the enterprise has entered into the financing agreement is expected to be financially capable of honoring the agreement.

b. Paragraph 14:

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 (appropriate date determined in accordance with Statement 165) is not, by itself, sufficient to demonstrate an enterprise'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 2) from the date of the balance sheet, the revolving credit agreement must meet the conditions in paragraph 11(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 "stand-by" credit agreement, the stand-by agreement must meet the conditions in paragraph 11(b) to justify excluding the short-term obligation from current liabilities.

B5. FASB Statement No. 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings,* is amended as follows:

a. Footnote 10 to paragraph 16:

All or a portion of the carrying amount of the payable at the time of the restructuring may need to be reclassified in the balance sheet because of changes in the terms, for example, a change in the amount of the payable due within one year after the date of the debtor's balance sheet. 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 (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) may affect the classification of that obligation in accordance with *FASB Statement No. 6,* "Classification of Short-Term Obligations Expected to Be Refinanced."

B6. FASB Statement No. 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies,* is amended as follows:

a. Paragraph 39:

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 (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) shall be taken into account in evaluating conditions that existed at the balance sheet date, for example, in assessing unproved properties (paragraph 28) and in determining whether an exploratory well or exploratory-type stratigraphic test well had found proved reserves (paragraphs 31–34).

B7. FASB Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans,* is amended as follows:

a. Paragraph 28(i):

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 (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) 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.

B8. FASB Statement No. 128, *Earnings per Share,* is amended as follows:

a. Paragraph 41:

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 (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) 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 54:

> If the number of common shares outstanding increases as a result of a stock dividend or stock split[24] 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 (appropriate date determined in accordance with Statement 165), 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. FASB Statement No. 141 (revised 2007), *Business Combinations,* is amended as follows:

a. Paragraph 67:

> **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; or**
> **b. After the reporting date but before the financial statements are issued or are available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*).**

b. Paragraph 68(l):

> If the acquirer is required to disclose segment information in accordance with FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information,* the amount of goodwill by reportable segment. If the assignment of goodwill to reporting units required by Statement 142 has not been completed as of the date the financial statements are issued or are available to be issued (appropriate date determined in accordance with Statement 165), the acquirer shall disclose that fact.

c. Paragraph 70:

> 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 (appropriate date determined in accordance with Statement 165), the acquirer shall disclose the information required by paragraph 68 unless the initial accounting for the business combination is incomplete at the time the financial statements are issued or are available to be issued (appropriate date determined in accordance with Statement 165). In that situation, the acquirer shall describe which disclosures could not be made and the reason why they could not be made.

B10. FASB Statement No. 142, *Goodwill and Other Intangible Assets,* is amended as follows:

a. Paragraph 22:

> If the second step of the goodwill impairment test is not complete before the financial statements are issued or are available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) 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.[15] Paragraph 47(c) requires disclosure of the fact that the measurement of the impairment loss is an estimate. Any adjustment to that estimated loss based on the completion of the measurement of the impairment loss shall be recognized in the subsequent reporting period.

B11. FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* is amended as follows:

a. Paragraph 33 and its related footnote 20:

> If the criteria in paragraph 30 are met after the balance sheet date but before ~~issuance of~~ the financial statements are issued or are available to

be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*), a long-lived asset shall continue to be classified as held and used in those financial statements when issued or available to be issued (appropriate date determined in accordance with Statement 165).[20] The information required by paragraph 47(a) shall be disclosed in the notes to the 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.[21] 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.

[20]Refer to Statement 165.~~AICPA Statement on Auditing Standards No. 1, *Codification of Auditing Standards and Procedures,* Section 560, "Subsequent Events."~~

B12. FASB Statement No. 154, *Accounting Changes and Error Corrections,* is amended as follows:

a. Paragraph 25:

> Any error in the financial statements of a prior period discovered ~~subsequent to their issuance~~after the financial statements are issued or are available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) shall be reported as a prior-period adjustment by restating the prior-period financial statements. Restatement requires that:
>
> 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.

B13. FASB Interpretation No. 8, *Classification of a Short-Term Obligation Repaid Prior to Being Replaced by a Long-Term Security,* is amended as follows:

a. Paragraph 3:

> The concept that a short-tem obligation will not require the use of current assets during the ensuing fiscal year if it is to be excluded from current liabilities underlies *FASB Statement No. 6* (see paragraphs 1, 2, and 20 of the Statement). That concept is also fundamental to Chapter 3A, "Current Assets and Current Liabilities," of *ARB No. 43,* which was not changed by *FASB Statement No. 6* (except as specified in paragraph 16 of the Statement). 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 (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*), the short-term obligation shall not be excluded from current liabilities at the balance sheet date.

b. Paragraph 4:

> In the example described in paragraph 2 above, the $1,000,000 of commercial paper liquidated in July would be classified as a current liability in the enterprise'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.[1] 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 (appropriate date determined in accordance with Statement 165) rather than a completed financing at that date would not change these classifications.

B14. FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss,* is amended as follows:

a. Paragraph 4:

> As an example, assume that an enterprise is involved in litigation at the close of its fiscal year ending December 31, 1976 and information available indicates that an unfavorable outcome is probable. Subsequently, after a trial on the issues, a verdict unfavorable to the enterprise is handed down, but the amount of damages remains unresolved at the time the financial statements are issued or are available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*). Although the enterprise 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. *FASB Statement No. 5* requires accrual of the $3 million at December 31, 1976, disclosure of the nature of the contingency and the exposure to an additional amount of loss of up to $6 million, and possibly disclosure of the amount of the accrual.

b. Paragraph 5:

> The same answer would result under the example in paragraph 4 above if it is probable that a verdict would be unfavorable even though the trial has not been completed before the financial statements are issued or are available to be issued (appropriate date determined in accordance with Statement 165). In that situation, condition (a) in paragraph 8 would be met because information available to the enterprise indicates that an unfavorable verdict is probable. An assessment that the range of loss is between $3 million and $9 million would meet condition (b) in paragraph 8. If no single amount in that range is a better estimate than any other amount, *FASB Statement No. 5* requires an accrual of $3 million at December 31, 1976, disclosure of the nature of the contingency and the exposure to an additional amount of loss up to $6 million, and possibly disclosure of the amount of the accrual. Note, however, that if the enterprise had assessed the verdict differently (e.g., that an unfavorable verdict was *not* probable but was only reasonably possible), condition (a) in paragraph 8 would not have been met and no amount of loss would be accrued but the nature of the contingency and any amount of loss that is reasonably possible would be disclosed.

B15. FASB Interpretation No. 36, *Accounting for Exploratory Wells in Progress at the End of a Period,* is amended as follows:

a. Paragraph 2:

> 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 (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*), 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.

B16. FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes,* is amended as follows:

a. Paragraph A31:

> Enterprise 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, Enterprise 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 enterprise (Enterprise B). The taxing authority and Enterprise B are aggressively litigating the matter. Although Enterprise 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 (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*), the taxing authority prevailed in its litigation with Enterprise B, and Enterprise A concludes that it is no longer more likely than not that it will sustain the position.

B17. EITF Issue No. 86-30, "Classification of Obligations When a Violation Is Waived by the Creditor," is amended as follows:

a. Scenario 5 in the second paragraph:

> The borrower is in violation of the current covenant requirement at the balance sheet date and, subsequent to the balance sheet date but prior to ~~issuance of~~ the financial statements <u>being issued or being available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*)</u>, 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.

B18. EITF Issue No. 03-13, "Applying the Conditions in Paragraph 42 of FASB Statement No. 144 in Determining Whether to Report Discontinued Operations," is amended as follows:

a. Paragraph 15:

> The evaluation of whether the criteria in paragraph 42 are expected to be met for a component that is either disposed of or classified as held for sale at the balance sheet date should include significant events or circumstances that occur after the balance sheet date but before the ~~issuance of the~~ financial statements <u>are issued or are available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*)</u>. This evaluation is solely for the purposes of determining the presentation of discontinued operations pursuant to paragraph 42 of Statement 144 and does not apply to any other guidance in Statement 144.

B19. EITF Topic No. D-80, "Application of FASB Statements No. 5 and No. 114 to a Loan Portfolio," is amended as follows:

a. Answer to Question 5 in Exhibit D-80A:

> Statement 5 requires recognition of a loss when (a) information available prior to ~~issuance of~~ the financial statements <u>being issued or being available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*)</u> indicates that it is probable that an asset has been impaired at the date of the financial statements and (b) the amount of the loss can be reasonably estimated. The criteria for recognition under Statement 5 provide that ". . . accrual shall be made even though the particular receivables that are uncollectible may not be identifiable" (paragraph 22). However, "double counting" by applying Statement 114 and then applying Statement 5 to *measure* the same loss again is inappropriate (refer to Questions 11 and 12).

B20. AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts,* is amended as follows:

a. Paragraph 82:

> 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 <u>are issued or are available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*)</u>; such information should result in an adjustment of the unissued financial statements. Events occurring after the date of the financial statements that are outside the normal exposure and risk aspects of the contract should not be considered refinements of the estimating process of the prior year but should be disclosed as subsequent events.

B21. AICPA Statement of Position 92-6, *Accounting and Reporting by Health and Welfare Benefit Plans,* is amended as follows:

a. The ninth bullet of paragraph 64:

> Unusual or infrequent events or transactions occurring after the financial statement date, but before ~~issuance of~~ the financial statements <u>are issued or are available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*)</u>, 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 financial statement date that significantly increases future benefits attributable to an employee's service rendered before that date, a significant change in the market value of a significant portion of the plan's assets, or the emergence of a catastrophic claim should be disclosed. If reasonably determinable, the effects of such events or transactions should be disclosed. If such effects are not reasonably determinable, the reasons why they are not quantifiable should be disclosed.

B22. AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties,* is amended as follows:

a. Paragraph 13:

Disclosure regarding an estimate should be made when known information available prior to ~~issuance of~~ the financial statements being issued or being available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) indicates that *both* of the following criteria are met:

a. It is at least reasonably possible[7] 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.
b. The effect of the change would be material to the financial statements.

b. Paragraph 21:

Financial statements should disclose the concentrations described in paragraph .22 if, based on information known to management prior to ~~issuance of~~ the financial statements being issued or being available to be issued (appropriate date determined in accordance with Statement 165), *all* of the following criteria are met:

a. The concentration exists at the date of the financial statements.
b. The concentration makes the enterprise 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.

c. Paragraph A-38:

Shortly after December 31, 19X2, but before the 19X2 financial statements were issued (or were available to be issued with the appropriate date determined in accordance with Statement 165), 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 percent of the original estimated construction cost, with 15 percent ($1.5 million) being their best estimate, and delays in construction are expected to add an additional 3 to 7 percent to the cost of construction, depending on the time involved, with 5 percent ($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.

d. Paragraph A-52:

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 (appropriate date determined in accordance with Statement 165), that the events that could cause the severe impact will occur.

B23. AICPA Statement of Position 96-1, *Environmental Remediation Liabilities,* is amended as follows:

a. Paragraph 105:

FASB Statement No. 5, *Accounting for Contingencies,* requires the accrual of a liability if (*a*) information available prior to ~~issuance of~~ the financial statements being issued or being available to be issued (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*) indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (*b*) the amount of the loss can be reasonably estimated.

B24. AICPA Statement of Position 00-2, *Accounting by Producers or Distributors of Films,* is amended as follows:

a. Paragraph 48:

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 (appropriate date determined in accordance with FASB Statement No. 165, *Subsequent Events*), 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 should 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.