WILEY

GAAP 2010

Interpretation and Application of
GENERALLY ACCEPTED
ACCOUNTING PRINCIPLES

Barry J. Epstein
Ralph Nach
Steven M. Bragg

WILEY

JOHN WILEY & SONS, INC.

Business combination. A transaction or event that results in an acquirer obtaining control over one or more businesses. It is important to note that transactions that are sometimes referred to as "mergers of equals" or as "true mergers" are nevertheless considered to be business combinations with an acquirer and one or more acquirees.

Closing date. The day on which an acquirer legally transfers consideration, acquires the assets, and assumes the liabilities of an acquiree.

Combined financial statements. Financial statements that present the collective results of operations and financial position of a group of entities under common management or control as if the group were a single economic entity. The presentation of the combined group excludes the party or parties that control or manage it.

Consolidated financial statements. The financial statements of a parent and all of its subsidiaries presented as a single economic entity.

Consolidated group. A parent and all of its subsidiaries.

Contingency. An existing, unresolved condition, situation, or set of circumstances that will eventually be resolved by the occurrence or nonoccurrence of one or more future events. A potential gain or loss to the reporting entity can result from the contingency's resolution.

Contingent consideration. Generally, an acquirer's obligation to transfer additional assets or equity interests to the acquiree's former owners if specified future events occur or conditions are met. The contingent obligation is incurred as part of a business combination in order to obtain control of an acquiree.

Contingent consideration might also arise when the terms of the business combination provide a requirement that the acquiree's former owners return previously transferred assets or equity interests to the acquirer under certain specified conditions.

Control (or controlling financial interest). Control of an entity can be obtained either (1) by obtaining ownership of a majority of its outstanding voting interests (the controlled entity being referred to as a voting interest entity), or (2) by obtaining contractual rights to receive the majority of the financial benefits and/or by assuming contractual obligations to bear the majority of the financial consequences that occur in the future from the entity outperforming or underperforming its expectations (the controlled entity being referred to as a variable interest entity or VIE). These conditions are mutually exclusive (i.e., an entity is either a voting interest entity controlled by the holders of a voting majority of its equity or is a variable interest entity controlled individually or collectively by one or more other parties referred to as holders of variable interests). In the latter instance, when a single party has control, the party is referred to as the primary beneficiary of the VIE.

Entities that might otherwise be considered voting interest entities nevertheless might not be controlled by the holders of the majority of the voting interests in situations where, for example, the entity is in legal reorganization, subject to bankruptcy proceedings, or operating subject to governmental restrictions (e.g., foreign exchange restrictions or other controls) that impose uncertainties on the entity whose severity casts significant doubt regarding the voting owner's ability to control the entity.

Defensive intangible asset. An intangible asset acquired in a business combination or asset acquisition that management of the acquirer does not intend to actively use, but that it intends to prevent others from using. Sometimes referred to as a "locked-up asset."

Dual-listed corporation or **Dual-listed company.** A contractual arrangement between two or more businesses in which they agree to retain their separate legal identities while operating as if they were a single economic unit. Unlike a stapling arrangement (defined below), dual listed entities' equity shares are traded separately.

entity can obtain control over another entity. Examples of acquisitions that are *not* the result of a purchase transaction include

1. Repurchase by the acquiree of a sufficient amount of its own outstanding shares to enable an existing investor to obtain control and, in effect, become an acquirer.
2. The expiration of minority veto rights where those rights had previously prevented an investor holding the majority of the voting equity from controlling the investee.
3. Execution of a contract between acquirer and acquiree in which the parties agree to combine their businesses without the transfer of consideration and without the acquirer holding any equity interests in the acquiree, either precombination or thereafter. Two variations of this type of business combination are
   a. A stapling arrangement in which two entities agree contractually that each of their respective equity securities be traded or transferred together. The combined securities are referred to as stapled securities because they cannot be traded or transferred independently and market quotations are only available at a single, stapled price.
   b. A dual-listing company structure (DLC) in which two companies, pursuant to provisions included in their bylaws, articles of incorporation, or articles of association agree to operate as if they were a single economic entity while each retains its separate legal identity. Under a DLC structure, unlike a stapling arrangement, the two companies' shares are traded and quoted separately.

In a business combination achieved solely by contract, the acquirer, in its postcombination financial statements, is to account for the equity interests in the acquiree that it does not hold as a noncontrolling interest in the acquiree. This treatment is required even when it results in 100% of the equity interests in the acquiree being attributed to the noncontrolling interest holders.

Changes in the parent's ownership interest in a subsidiary. Subsequent to a business combination, the parent may increase or decrease its ownership percentage in the acquiree/subsidiary, which may or may not affect whether the parent continues to control the subsidiary.

Changes not affecting control. The parent company may purchase or sell shares of the subsidiary after the acquisition date without affecting the determination that it controls the subsidiary. In addition, the subsidiary may issue new shares or repurchase some of its own shares as treasury stock or for retirement.

Changes in the parent's ownership interest that do not affect the determination that the parent retains a controlling financial interest in the subsidiary are accounted for as equity transactions with no gain or loss recognized in consolidated net income or in other comprehensive income. The carrying amount of the noncontrolling interest in the subsidiary is to be adjusted to reflect the change in ownership interest. Any difference between the fair value of the consideration received or paid in the transaction and the amount by which the noncontrolling interest is adjusted is to be recognized in equity attributable to the parent.

In the case of a subsidiary that has accumulated other comprehensive income (AOCI), if there is a change in the parent's ownership interest, the carrying amount of AOCI is to be adjusted through a corresponding charge or credit to equity attributable to the parent.

Changes resulting in loss of control. If a parent company ceases to have a controlling financial interest in a subsidiary, the parent is required to deconsolidate the subsidiary as of the date on which its control ceased. Examples of situations that can result in a parent being required to deconsolidate a subsidiary include

1. Sale by the parent of all or a portion of its ownership interest in the subsidiary resulting in the parent no longer holding a controlling financial interest,
2. Expiration of a contract that granted control of the subsidiary to the parent,
3. Issuance by the subsidiary of stock that reduces the ownership interest of the parent to a level not representing a controlling financial interest,
4. Loss of control of the subsidiary by the parent because the subsidiary becomes subject to control by a governmental body, court, administrator, or regulator.

If a parent effects a deconsolidation of a subsidiary through a nonreciprocal transfer to owners such as through a spin-off transaction, the transaction is accounted for under ASC 845, *Nonmonetary Transactions*. Otherwise, the parent is to account for the deconsolidation by recognizing, in net income, a gain or loss attributable to the parent. The gain or loss is measured as follows:

FVCR	=	Fair value of consideration received, if any
FVNIR	=	Fair value of any noncontrolling investment retained by the former parent at the deconsolidation date
CVNI	=	Carrying value of the noncontrolling interest in the former subsidiary on the deconsolidation date, including any accumulated other comprehensive income attributable to the noncontrolling interest
CVAL	=	Carrying value of the former subsidiaries assets and liabilities at the deconsolidation date.

(FVCR + FVNIR + CVNI) – CVAL = Deconsolidation Gain (Loss)

Should the parent's loss of controlling financial interest occur through two or more transactions, management of the former parent is to consider whether the transactions should be accounted for as a single transaction. In evaluating whether to combine the transactions, management of the former parent is to consider all of the terms and conditions of the transactions as well as their economic impact. The presence of one or more of the following indicators may lead to management concluding that it should account for multiple transactions as a single transaction:

1. The transactions are entered into simultaneously or in contemplation of one another,
2. The transactions, when considered in tandem, are in substance a single transaction designed to achieve an overall commercial objective,
3. The occurrence of one transaction depends on the occurrence of at least one other transaction,
4. One transaction, when considered on its own merits, does not make economic sense, but when considered together with the other transaction or transactions would be considered economically justifiable.

Obviously, this determination requires the exercise of sound judgment and attention to economic substance over legal form.

Allocation of net income and other comprehensive income to the parent and noncontrolling interest. In preparing consolidated financial statements, the parent is to eliminate 100% of the intercompany income or loss. This elimination is not affected by the existence of a noncontrolling interest since the consolidated financial statements purport to present the financial position and economic performance of a single economic entity. The elimination of the intercompany income or loss may be allocated between the parent and noncontrolling interests.

Revenues, expenses, gains, losses, net income or loss, and other comprehensive income are to be reported in the consolidated financial statements at the consolidated amounts that