

Statement of Financial Accounting Standards No. 21

Note: This Statement has been completely superseded

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Suspension of the Reporting of Earnings
per Share and Segment Information
by Nonpublic Enterprises

(an amendment of APB Opinion No. 15
and FASB Statement No. 14)

April 1978



Financial Accounting Standards Board

of the Financial Accounting Foundation

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Statement of Financial Accounting Standards No. 21

Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises

an amendment of APB Opinion No. 15 and FASB Statement No. 14

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FAS 21: Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises an amendment of APB Opinion No. 15 and FASB Statement No. 14

INTRODUCTION AND BACKGROUND INFORMATION

1. The Accounting Standards Division of the AICPA began a study of the application of generally accepted accounting principles (GAAP) to smaller or closely held enterprises in 1974 and issued its report on that study in August 1976. One of the major recommendations in that report states:

The Financial Accounting Standards Board should develop criteria to distinguish disclosures that should be required by GAAP, which is applicable to the financial statements of all entities, from disclosures that merely provide additional or analytical data. (Some of these latter disclosures may, however, still be required in certain circumstances for certain types of entities.) The criteria should then be used in a formal review of disclosures presently considered to be required by GAAP and should also be considered by the Board in any new pronouncements.

The report also recommends that the FASB amend *APB Opinion No. 15*, "Earnings per Share," to require disclosure of earnings per share information only by enterprises whose securities are publicly traded. In addition to the recommendation contained in the AICPA report, a number of respondents to the FASB agenda project, "Conceptual Framework for Financial Accounting and Reporting: Objectives of Financial Reporting and Elements of Financial Statements of Business Enterprises," have expressed the view that the Board should distinguish between the information that should be included in financial statements and the so-called predictive, interpretive, or "soft" data that should be provided by financial reporting other than financial statements. Further, since the issuance in December 1976 of *FASB Statement No. 14*, "Financial Reporting for Segments of a Business Enterprise," the Board has received a number of suggestions that nonpublic enterprises be exempted from the requirements of that Statement. Others have suggested that segment information is an example of the type of interpretive or analytical information that should be presented outside the financial statements.

2. *APB Opinion No. 15* requires that earnings per share data be presented on the face of an enterprise's income statement and requires certain other disclosures in specified situations. *FASB Statement No. 14* requires disclosure of certain information relating to (a) the operations of an enterprise in different industries, (b) its foreign operations and export sales, and (c) its major

customers. In its deliberations leading to the issuance of Statement No. 14, the Board considered whether certain enterprises should be exempted from disclosing segment information based on the size of the enterprise or whether its securities are publicly traded and concluded, for the reasons set forth in paragraph 70 of the Statement, that segment information should be included in the financial statements of all business enterprises.

3. The members of the Financial Accounting Standards Advisory Council and the FASB Screening Committee on Emerging Problems were consulted in January 1978 about the possibility of different applications of generally accepted accounting principles to small or closely held enterprises and large or public enterprises. Many of the members of the Advisory Council and the Screening Committee who advised the Board on this matter indicated that there should be a differentiation between disclosures required of small or closely held enterprises and disclosures required of large publicly traded enterprises and recommended that the Board add a project to its agenda to develop criteria for such a differentiation. Further, many of the members of the Advisory Council and the Screening Committee who advised the Board on this matter cited earnings per share and segment information as examples of disclosures that they believe should be optional for certain enterprises.

4. On February 23, 1978, the Board added to its agenda a major project to consider whether guidelines should be established for (a) distinguishing between information that should be disclosed in financial statements and information that should be disclosed in financial reporting otherwise and (b) distinguishing between information that all enterprises should be required to disclose and information that only designated types of enterprises should be required to disclose. Special attention will be given in that project to the financial statements and financial reporting of small or closely held enterprises.

5. In recognition of (a) the apparent pervasive public concern about the burden on small or closely held enterprises of compliance with certain financial statement disclosure requirements, (b) the recommendations of the AICPA report on "Generally Accepted Accounting Principles for Smaller and/or Closely Held Businesses," and (c) the recommendations of the members of the Board's Screening Committee on Emerging Problems and the Board's Advisory Council, the Board has concluded that application of *APB Opinion No. 15* and *FASB Statement No. 14* to nonpublic enterprises should be suspended, pending completion of the project referred to in paragraph 4. The Board will consider whether the disclosure requirements in pronouncements issued while that project is under way should be applicable to all enterprises.

6. An Exposure Draft of a proposed Statement of Financial Accounting Standards, "Suspension of the Reporting of Earnings per Share and Segment Information by Nonpublic Enterprises," was issued on February 27, 1978. The Board received 126 letters of comment in response to the Exposure Draft, most of which expressed agreement.

7. Some respondents recommended that the Board clarify whether the definition of "nonpublic" applies to a subsidiary, corporate joint venture, or other investee. The Board has a

project on its agenda addressing the question of whether a complete set of financial statements of a parent company, a subsidiary, a corporate joint venture, or other investee accounted for by the equity method should include segment information when those financial statements are presented with consolidated financial statements. That project involves a reconsideration of the requirements of the last sentence of paragraph 7 of *FASB Statement No. 14*.¹ The Board concluded that it should not delay issuance of this Statement pending completion of its deliberations on that project. This Statement applies to a complete set of separately issued financial statements of a subsidiary, corporate joint venture, or other investee that is nonpublic as that term is used in this Statement. This Statement does not extend to those financial statements when presented in the financial report of another enterprise, as that matter is included in the scope of the project involving reconsideration of the last sentence of paragraph 7 of Statement No. 14 referred to above. An Exposure Draft of a proposed Statement of Financial Accounting Standards addressing that matter will be issued in the near future.

8. Some respondents noted that defining a nonpublic enterprise as an enterprise other than one whose debt or equity securities trade in a public market would exempt other kinds of enterprises with public participation from the requirements of *FASB Statement No. 14*. Those exempted enterprises include certain mutual associations, cooperatives, nonbusiness organizations, and partnerships that often make their financial statements available to a broad class, such as, insurance policyholders, depositors, members, contributors, or partners. The Board concluded that it should not delay the issuance of this Statement to refine the meaning of the term "nonpublic" at this time. Accordingly, the suspensions in paragraph 12 apply for the present to enterprises with a broad class of public participants that meet the "nonpublic" definition in paragraph 13. Those suspensions, however, should not be construed as an indication that the Board has decided that the information requirements for those enterprises are significantly different from those for an enterprise whose debt or equity securities are publicly traded.

9. Some respondents stated that the requirement of paragraph 39 of *FASB Statement No. 14* to disclose information about major customers should not be suspended. Those respondents believe that disclosure is necessary if an enterprise sells much of its output to one or relatively few other enterprises. Although this Statement suspends the application of Statement No. 14 to the financial statements of nonpublic enterprises, the Board notes that it does not affect the disclosure of information about economic dependency when such disclosure may be necessary for a fair presentation.²

10. Some respondents stated that the effective date and transition set forth in the Exposure Draft of the proposed Statement were too restrictive. They noted that financial statements issued prior to the effective date of this Statement may be reissued subsequent to its effective date for other than comparative purposes and recommended that disclosure of earnings per share and segment information for fiscal years ended prior to the effective date of this Statement should not be required in financial statements of nonpublic enterprises that are reissued for any reason subsequent to the effective date of this Statement. The Board accepted those views, and the provisions of this Statement are retroactive to fiscal years beginning after December 15, 1976,

the effective date of *FASB Statement No. 14*.

11. The Board has concluded that on the basis of existing information it can reach an informed decision without a public hearing and the effective date and transition specified in paragraph 16 are advisable in the circumstances.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

12. This Statement suspends the requirements of *APB Opinion No. 15*³ and *FASB Statement No. 14* in the financial statements of nonpublic enterprises as defined in paragraph 13. Therefore, this Statement suspends any requirement to disclose the information specified by Opinion No. 15 and Statement No. 14 in a complete set of separately issued financial statements of a subsidiary, corporate joint venture, or other investee that is a nonpublic enterprise.⁴

13. For purposes of this Statement, a nonpublic enterprise is an enterprise other than one (a) whose debt or equity securities trade in a public market on a foreign or domestic stock exchange or in the over-the-counter market (including securities quoted only locally or regionally) or (b) that is required to file financial statements with the Securities and Exchange Commission. An enterprise is no longer considered a nonpublic enterprise when its financial statements are issued in preparation for the sale of any class of securities in a public market.

14. Although the presentation of earnings per share and segment information is not required in the financial statements of nonpublic enterprises, any such information that is presented in the financial statements shall be consistent with the requirements of *APB Opinion No. 15* and *FASB Statement No. 14*.

Amendments to Existing Pronouncements

15. The following footnote is added to the end of the first sentence of paragraph 45 of *APB Opinion No. 15* and to the end of the first sentence of paragraph 41 of *FASB Statement No. 14* (as amended by *FASB Statement No. 18*, "Financial Reporting for Segments of a Business Enterprise—Interim Financial Statements: an amendment of FASB Statement No. 14"):

The provisions of this [Opinion/Statement] were suspended by *FASB Statement No. 21* and need not be applied by a nonpublic enterprise as defined in that Statement pending further action by the FASB.

Effective Date and Transition

16. This Statement shall be effective April 30, 1978 retroactive to fiscal years beginning after December 15, 1976.

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

This Statement was adopted by the affirmative votes of five members of the Financial Accounting Standards Board. Messrs. Mosso and Walters dissented.

Although Messrs. Mosso and Walters agree with the suspension of the application of *APB Opinion No. 15* and *FASB Statement No. 14* to the financial statements of small, closely held enterprises, they dissent because this amendment suspends the standards for many enterprises that do not meet reasonable tests of "small" or "closely held." Some are large complex enterprises whose financial reports are widely distributed. They may be in direct competition with enterprises whose securities are traded in public markets. The dissenters believe that suspension of Statement No. 14 for some of the large enterprises in an industry but not for others is not sustainable on the basis solely of differences in the form of ownership.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Oscar S. Gellein
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

Footnotes

FAS21, Footnote 1--The last sentence of paragraph 7 of *FASB Statement No. 14* states:

When a complete set of financial statements that present financial position, results of operations, and changes in financial position in conformity with generally accepted accounting principles is presented for a subsidiary, corporate joint venture, or 50 percent or less owned investee, each such entity is considered to be an enterprise as that term is used in this Statement and thus is subject to its requirements whether those financial statements are issued separately or included in another enterprise's financial report.

FAS21, Footnote 2--Paragraph .05 of section 335, "Related Party Transactions," of *Statements on Auditing Standards* states:

An entity may be economically dependent on one or more parties with which it transacts a significant volume of business, such as a sole or major customer, supplier, franchisor, franchisee, distributor, general agent, borrower, or lender. Such parties should not be considered related parties solely by virtue of economic dependency unless one of them clearly exercises significant management or ownership influence over the other. Disclosure of economic dependency may, however, be necessary for a fair presentation of financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles.

FAS21, Footnote 3--This Statement does not suspend or modify other generally accepted accounting principles or practices (such as those specified in paragraph 15 of Chapter 13B, "Compensation Involved in Stock Option and Stock Purchase Plans," of *ARB No. 43* and paragraphs 10 and 11, "Liquidation Preference of Preferred Stock," of *APB Opinion No. 10*) that require disclosure of information concerning the capital structure of an enterprise.

FAS21, Footnote 4--As mentioned in paragraph 7, the Board has a project on its agenda addressing the question of whether a complete set of financial statements of a parent company, a subsidiary, a corporate joint venture, or other investee accounted for by the equity method should include segment information when those financial statements are presented with consolidated financial statements.