

Statement of Financial Accounting Standards No. 79

Note: This Statement has been completely superseded

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Elimination of Certain Disclosures for Business
Combinations by Nonpublic Enterprises

an amendment of APB Opinion No. 16

February 1984



Financial Accounting Standards Board

of the Financial Accounting Foundation

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**Elimination of Certain Disclosures for
Business Combinations by Nonpublic Enterprises**

an amendment of APB Opinion No. 16

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FAS 79: Elimination of Certain Disclosures For Business Combinations by Nonpublic Enterprises

an amendment of APB Opinion No. 16

FAS 79 Summary

This Statement amends APB Opinion No. 16, *Business Combinations*, to eliminate the requirement for nonpublic enterprises to disclose pro forma results of operations for business combinations accounted for by the purchase method. Disclosure requirements for public enterprises are not changed by this Statement.

This Statement is a product of FASB research on financial reporting by private and small public companies. A number of participants in those research efforts cited accounting and disclosure requirements that they believe should not apply to nonpublic enterprises, including the pro forma disclosures prescribed by Opinion 16. The Board has concluded that the costs of providing the pro forma disclosures prescribed by Opinion 16 generally exceed the benefits for the users of nonpublic company financial statements.

This Statement is effective for financial statements for fiscal years beginning after December 15, 1983, with earlier application permitted in financial statements that have not previously been issued.

INTRODUCTION

1. The FASB has undertaken research on financial reporting by private and small public companies to obtain information about the practices and views of managers, financial statement users, and public accountants involved with those companies.¹ A number of participants in those research efforts stated that the requirement to disclose pro forma results of operations for business combinations accounted for by the purchase method was unnecessary and too costly for private companies.

2. Paragraph 96 of APB Opinion No. 16, *Business Combinations*, requires an acquiring enterprise to disclose the following information in financial statements of the period in which a business combination accounted for by the purchase method occurs:

a. Results of operations for the current period as though the enterprises had combined at the

beginning of the period, unless the acquisition was at or near the beginning of the period

b. Results of operations for the immediately preceding period as though the enterprises had combined at the beginning of that period if comparative financial statements are presented.

3. The Board has concluded that the disclosures prescribed by paragraph 96 of Opinion 16 should not be required in the financial statements of nonpublic enterprises. The basis for the Board's conclusions is presented in the appendix to this Statement.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

4. Disclosures of pro forma results of operations prescribed in paragraph 96 of Opinion 16 for business combinations accounted for by the purchase method are not required for nonpublic enterprises.

5. For purposes of this Statement, a nonpublic enterprise is an enterprise other than one (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market (including securities quoted only locally or regionally), or (b) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities.

Amendment to APB Opinion No. 16

6. The following footnote is added to the end of paragraph 96 of Opinion 16:

*The disclosures prescribed by paragraph 96 are not required in the financial statements of nonpublic enterprises as defined by FASB Statement No. 79, *Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises*.

Effective Date

7. This Statement shall be effective for financial statements for fiscal years beginning after December 15, 1983. Earlier application is permitted in financial statements that have not previously been issued.

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

Donald J. Kirk, *Chairman*
Frank E. Block
Victor H. Brown
Raymond C. Lauver
John W. March
David Mosso
Robert T. Sprouse

Appendix: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

8. An Exposure Draft of a proposed Statement, *Elimination of Certain Disclosures for Business Combinations by Nonpublic Enterprises*, was issued on October 4, 1983. In response to the Exposure Draft the Board received 46 comment letters, most of which expressed agreement. This appendix discusses factors deemed significant by the Board in reaching the conclusions in this Statement. Individual Board members gave greater weight to some factors than to others. The Board concluded that it could reach an informed decision on the basis of existing information without a public hearing and that the effective date specified in paragraph 7 is advisable in the circumstances.

Responses to Invitation to Comment

9. Many public accountants who responded to the FASB Invitation to Comment, *Financial Reporting by Private and Small Public Companies*, criticized the requirement in Opinion 16 to disclose pro forma information as unnecessary and too costly for nonpublic companies. They stated that those companies are frequently unable to make the pro forma calculations themselves and that the public accountants frequently have to develop the information, which increases the costs of compliance. They also stated that they believe many users of nonpublic company financial statements do not use the information.

10. Responses to the Invitation to Comment indicate that bankers are the primary external users of the financial statements of most nonpublic companies. Bankers responding to the Invitation to Comment did not identify as unnecessary the requirement to disclose pro forma information. However, in follow-up discussions with the FASB's small business advisory group and others, bankers indicated that they do not believe the pro forma disclosures are always necessary.

Costs and Benefits of Providing Pro Forma Information

11. FASB Concepts Statements No. 1, *Objectives of Financial Reporting by Business Enterprises*, and No. 2, *Qualitative Characteristics of Accounting Information*, both recognize the constraint of costs in relation to benefits in considering the information required to be disclosed in financial statements. Paragraph 23 of Concepts Statement 1 states:

The information provided by financial reporting involves a cost to provide and use, and generally the benefits of information provided should be expected to at least equal the cost involved.

12. The preparation of pro forma disclosures is usually costly because necessary information is not always readily available and the compilation of the disclosures is complex. Most nonpublic companies are relatively small and often do not have extensive accounting expertise. They usually obtain outside assistance to prepare financial reporting disclosures that are required only infrequently. Consequently, the Board believes that the disclosures of pro forma results of operations that are required in the event of business combinations are relatively costly for nonpublic enterprises.

13. The primary users of financial statements of nonpublic enterprises believe that the pro forma disclosures required by Opinion 16 are not always needed, and when the financial statement users want information about a significant business acquisition they frequently desire and obtain different information.

14. The Board's decision to eliminate the pro forma disclosure requirements in Opinion 16 for nonpublic enterprises is based on the assessment that the costs of requiring all nonpublic enterprises to provide those disclosures generally exceed the benefits to the users of nonpublic company financial statements. The disclosure requirements in paragraph 95 of Opinion 16 continue unchanged, including the requirement to disclose the period for which results of operations of the acquired company are included in the income statement of the acquiring enterprise.

Mutual and Cooperative Organizations

15. Some Board members believe that the definition of nonpublic enterprises in paragraph 5 of this Statement inappropriately includes mutual and cooperative organizations whose financial statements are broadly distributed. Many of those organizations have large numbers of depositors, policyholders, patrons, and other interested parties whose primary source of financial information about the organization may be the financial statements. They believe that those organizations are public companies in a practical sense. They also note that those organizations are frequently involved in business combinations.

16. A few respondents to the Exposure Draft agreed with the Board members' views described in paragraph 15 and stated that the definition of a nonpublic enterprise in paragraph 5 should be changed to exclude mutual and cooperative organizations whose financial statements are broadly distributed. The Board decided not to address mutual and cooperative organizations separately in this Statement because it would raise additional issues (including those referred to in paragraph 17) that might impede its efforts to provide timely relief from pro forma disclosure requirements for nonpublic enterprises.

Applicability to Public Enterprises

17. A few respondents to the Exposure Draft stated that the pro forma disclosures required by Opinion 16 are not cost effective for public enterprises, and should be eliminated for those enterprises also. The Board did not address the cost effectiveness of the pro forma disclosures required by Opinion 16 for public enterprises. Such an undertaking would necessarily involve broader issues, including a review of other disclosures required for business combinations by public companies. The Board believes that such a review would unnecessarily delay providing relief from pro forma disclosure requirements for nonpublic enterprises.

Footnotes

FAS79, Footnote 1--Refer to (a) FASB Invitation to Comment, *Financial Reporting by Private and Small Public Companies*, 1981; (b) FASB Special Report, *Financial Reporting by Privately Owned Companies: Summary of Responses to FASB Invitation to Comment*, 1983; and (c) FASB Research Report, *Financial Reporting by Private Companies: Analysis and Diagnosis*, prepared by A. Rashad Abdel-khalik, 1983.