505 - Equity

505-10 - Overall

505-10-00 - Status

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

505-10-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Contingently Convertible Instruments	Added	Accounting Standards Update No. 2020-06	08/05/2020
Convertible Security	Added	Accounting Standards Update No. 2020-06	08/05/2020
Down Round Feature	Added	Accounting Standards Update No. 2017-11	07/13/2017
Equity Restructuring	Added	Accounting Standards Update No. 2017-11	07/13/2017
Financial Instrument	Amended	Accounting Standards Update No. 2024-02	03/29/2024
Financial Instrument	Added	Accounting Standards Update No. 2017-11	07/13/2017
Registration Payment Arrangement	Added	Accounting Standards Update No. 2016-19	12/14/2016
Security (1st def.)	Superseded	Accounting Standards Update No. 2020-06	08/05/2020
Standard Antidilution Provisions	Added	Accounting Standards Update No. 2017-11	07/13/2017
505-10-05-1	Amended	Accounting Standards Update No. 2018-07	06/20/2018
505-10-05-3	Amended	Accounting Standards Update No. 2020-06	08/05/2020
505-10-05-5 through 05-7	Added	Accounting Standards Update No. 2020-06	08/05/2020
505-10-15-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-10-15-2	Amended	Accounting Standards Update No. 2020-06	08/05/2020
505-10-25-3	Amended	Accounting Standards Update No. 2018-07	06/20/2018

505-10-35-1	Added	Accounting Standards Update No. 2020-06	08/05/2020
505-10-45-2	Amended	Accounting Standards Update No. 2015-10	06/12/2015
505-10-50-3	Amended	Accounting Standards Update No. 2017-11	07/13/2017
505-10-50-3A	Added	Accounting Standards Update No. 2017-11	07/13/2017
505-10-50-4	Amended	Accounting Standards Update No. 2023-06	10/09/2023
505-10-50-6 through 50-10A	Superseded	Accounting Standards Update No. 2020-06	08/05/2020
505-10-50-8	Amended	Maintenance Update 2016-11	06/27/2016
505-10-50-12 through 50-18	Added	Accounting Standards Update No. 2020-06	08/05/2020
505-10-60-1	Amended	Accounting Standards Update No. 2011-05	06/16/2011
505-10-60-2	Superseded	Accounting Standards Update No. 2020-06	08/05/2020
505-10-60-6	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-10-60-7	Added	Accounting Standards Update No. 2017-11	07/13/2017
505-10-60-8	Added	Accounting Standards Update No. 2021-04	05/03/2021

505-10-**05 - Overview and Background**

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

505-10-05-**1** The Equity Topic includes the following Subtopics:

a. Overall
b. Stock Dividends and Stock Splits
c. Treasury Stock
d. Subparagraph superseded by Accounting Standards Update No. 2018-07.
e. Spinoffs and Reverse Spinoffs.

505-10-05-**2** The Overall Subtopic addresses financial accounting and reporting for equity-related matters not specifically addressed in the other Subtopics of the Equity Topic or other Topics that also address equity matters.

505-10-05-**3** Equity, sometimes referred to as net assets, is the residual interest in the assets of an entity that remains after deducting its liabilities. The Subtopics of the Equity Topic provide guidance on several specific elements of transactions, accounts and financial instruments that are classified as components of equity as well as overall general guidance related to equity. Issues that relate to whether a specific financial instrument shall be classified as equity or outside of the equity classification are addressed in Topic 480 as well as other Topics that address these classification matters.

> **PENDING CONTENT**
>
> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1Equity, sometimes referred to as net assets, is the residual interest in the assets of an entity that remains after deducting its liabilities. The Subtopics of the Equity Topic provide guidance on several specific elements of transactions, accounts and financial instruments that are classified as components of equity as well as overall general guidance related to equity. Issues that relate to whether a specific financial instrument shall be classified as equity or outside of the equity classification are addressed in Topic 480 as well as other Topics (such as Topic 815 on derivatives and hedging) that address these classification matters.

505-10-05-**4** Other Topics, including industry-specific Topics, also contain guidance related to specific equity matters associated with those Topics. Equity guidance in those Topics is intended to be incremental to the guidance otherwise established in this Topic.

Convertible Preferred Stock

505-10-05-**5**

> **PENDING CONTENT**
>
> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Entities may issue convertible preferred stock that may be convertible into common stock at the lower of a conversion rate fixed at time of issuance and a fixed discount to the market price of the common stock at the date of conversion.

505-10-05-**6**

> **PENDING CONTENT**
>
> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Certain convertible preferred stock may have a contingently adjustable conversion ratio. Examples of a conversion price that is variable based on future events are the following:
>
> a. A liquidation or a change in control of an entity
>
> b. A subsequent round of financing at a price lower than the convertible security's original conversion price
>
> c. An initial public offering at a share price lower than an agreed-upon amount.

505-10-05-**7**

> **PENDING CONTENT**

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Certain convertible preferred stock may become convertible only upon the occurrence of a future event outside the control of the holder.

505-10-**15 - Scope and Scope Exceptions**

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Entities

505-10-15-**1** The guidance in this Subtopic applies to all entities, unless more specific guidance is provided in other Topics.

Instruments

505-10-15-**2** The guidance in this Subtopic applies to all of the following instruments and activities:

a. Transactions in an entity's own common stock

b. Receivables related to the issuance of equity interests and the appropriation of retained earnings

c. All contingently convertible securities, including those containing contingent conversion requirements that have not been met and are not otherwise required to be included in the computation of diluted earnings per share (EPS) in accordance with the requirements of Topic 260.

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1The guidance in this Subtopic applies to all of the following instruments and activities:

a. Transactions in an entity's own common stock

b. Receivables related to the issuance of equity interests and the appropriation of retained earnings

c. Subparagraph superseded by Accounting Standards Update No. 2020-06.

d. Convertible preferred stock, unless the guidance in other Subtopics (such as Subtopic 470-20 on debt with conversion and other options or 480-10 on distinguishing liabilities from equity) requires that the convertible preferred stock be classified as a liability. The relevant guidance in this Subtopic shall be considered after an issuer's determination under Subtopic 815-15 on embedded derivatives of whether an embedded conversion option or other embedded feature in convertible preferred stock should be accounted for separately as a derivative instrument (see paragraph 815-15-55-76B). The guidance in this Subtopic does not apply to convertible preferred stock that is issued as awards to a grantee in exchange for goods or services received (or to be received) that are within the scope of Topic 718 on stock compensation unless the instrument is modified in accordance with and no longer subject to the guidance in that Topic.

505-10-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification.

> Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Contingently Convertible Instruments

Contingently convertible instruments are instruments that have embedded conversion features that are contingently convertible or exercisable based on either of the following:

a. A market price trigger
b. Multiple contingencies if one of the contingencies is a market price trigger and the instrument can be converted or share settled based on meeting the specified market condition.

A market price trigger is a market condition that is based at least in part on the issuer's own share price. Examples of contingently convertible instruments include contingently convertible debt, contingently convertible preferred stock, and the instrument described by paragraph 260-10-45-43, all with embedded market price triggers.

Convertible Security

A security that is convertible into another security based on a conversion rate. For example, convertible preferred stock that is convertible into common stock on a two-for-one basis (two shares of common for each share of preferred).

Down Round Feature

A feature in a financial instrument that reduces the strike price of an issued financial instrument if the issuer sells shares of its stock for an amount less than the currently stated strike price of the issued financial instrument or issues an equity-linked financial instrument with a strike price below the currently stated strike price of the issued financial instrument. A down round feature may reduce the strike price of a financial instrument to the current issuance price, or the reduction may be limited by a floor or on the basis of a formula that results in a price that is at a discount to the original exercise price but above the new issuance price of the shares, or may reduce the strike price to below the current issuance price. A standard antidilution provision is not considered a down round feature.

Equity Restructuring

A nonreciprocal transaction between an entity and its shareholders that causes the per-share fair value of the shares underlying an option or similar award to change, such as a stock dividend, stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:
   1. To deliver cash or another financial instrument to a second entity
   2. To exchange other financial instruments on potentially unfavorable terms with the second entity.
b. Conveys to that second entity a contractual right either:
   1. To receive cash or another financial instrument from the first entity
   2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument. Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, Elements of Financial Statements, although some may not be recognized as assets (liabilities) in financial statements-that is, they may be off-balance-sheet-because they fail to meet some other criterion for recognition. For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

PENDING CONTENT

Transition Date: P December 16, 2024; N December 16, 2025 **- Transition Guidance :** 105-10-65-9

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:
    1. To deliver cash or another financial instrument to a second entity
    2. To exchange other financial instruments on potentially unfavorable terms with the second entity.
b. Conveys to that second entity a contractual right either:
    1. To receive cash or another financial instrument from the first entity
    2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument. Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. Some contractual rights (contractual obligations) that are financial instruments may not be recognized in financial statements-that is, they may be off-balance-sheet-because they fail to meet some other criterion for recognition. For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

Participation Rights

Contractual rights of security holders to receive dividends or returns from the security issuer's profits, cash flows, or returns on investments.

Preferred Stock

A security that has preferential rights compared to common stock.

Registration Payment Arrangement

An arrangement with both of the following characteristics:

a. It specifies that the issuer will endeavor to do either of the following:
    1. File a registration statement for the resale of specified financial instruments and/or for the resale of equity shares that are issuable upon exercise or conversion of specified financial instruments and for that registration statement to be declared effective by the U.S. Securities and Exchange Commission (SEC) (or other applicable securities regulator if the registration statement will be filed in a foreign jurisdiction) within a specified grace period

   2. Maintain the effectiveness of the registration statement for a specified period of time (or in perpetuity).

b. It requires the issuer to transfer consideration to the counterparty if the registration statement for the resale of the financial instrument or instruments subject to the arrangement is not declared effective or if effectiveness of the registration statement is not maintained. That consideration may be payable in a lump sum or it may be payable periodically, and the form of the consideration may vary. For example, the consideration may be in the form of cash, equity instruments, or adjustments to the terms of the financial instrument or instruments that are subject to the registration payment arrangement (such as an increased interest rate on a debt instrument).

Security

The evidence of debt or ownership or a related right. It includes options and warrants as well as debt and stock.

Standard Antidilution Provisions

Standard antidilution provisions are those that result in adjustments to the conversion ratio in the event of an equity restructuring transaction that are designed to maintain the value of the conversion option.

505-10-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

505-10-25-**1** Additional paid-in capital, however created, shall not be used to relieve income of the current or future years of charges that would otherwise be made to the income statement. See paragraph 852-20-25-2 for an exception to this guidance related to reorganizations.

505-10-25-**2** All of the following shall be excluded from the determination of net income or the results of operations under all circumstances:

a. Adjustments or charges or credits resulting from transactions in the entity's own capital stock

b. Transfers to and from accounts properly designated as appropriated retained earnings (see paragraph 505-10-45-3 for what is meant by properly designated as appropriated retained earnings)

c. Adjustments made pursuant to a quasi-reorganization (see Subtopic 852-20 for information concerning quasi-reorganizations).

505-10-25-**3** Paragraphs 323-10-25-3 through 25-5 provide guidance on accounting for share-based compensation granted by an investor to employees or nonemployees of an equity method investee that provide goods or services to the investee that are used or consumed in the investee's operations. An investee shall recognize the costs of the share-based payment incurred by the investor on its behalf, and a corresponding capital contribution, as the costs are incurred on its behalf (that is, in the same period(s) as if the investor had paid cash to employees and nonemployees of the investee following the guidance in Topic 718 on stock compensation.

505-10-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

505-10-35-**1**

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 If convertible preferred stock is required to be redeemed once the conversion feature expires, the financial instrument becomes a liability under the guidance in Topic 480 upon expiration of the conversion feature and paragraph 480-10-30-2 requires the issuer to reclassify an instrument that becomes mandatorily redeemable as a liability, measured initially at fair value with a corresponding reduction of equity (no gain or loss is to be recognized). That may entail an adjustment to paid-in capital if, upon reclassification, the fair value of the liability differs from the carrying amount of the previously convertible preferred stock. That financial instrument would be subsequently measured under the provisions of Topic 480.

505-10-**45 - Other Presentation Matters**

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

505-10-45-**1** This Section provides guidance related to whether an entity shall report a note receivable arising from the issuance of equity interests either as a reduction of shareholders' equity or as an asset. Guidance is also provided related to appropriations of retained earnings.

Receivables for Issuance of Equity

505-10-45-**2** An entity may receive a note, rather than cash, as a contribution to its equity. The transaction may be a sale of capital stock or a contribution to paid-in capital. Reporting the note as an asset is generally not appropriate, except in very limited circumstances in which there is substantial evidence of ability and intent to pay within a reasonably short period of time, for example, as discussed for public entities in paragraph 210-10-S99-1 (paragraphs 27 through 29), which requires a deduction of the receivable from equity. However, such notes may be recorded as an asset if collected in cash before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25).

Appropriations of Retained Earnings

505-10-45-**3** Appropriation of retained earnings is permitted, provided that it is shown within the shareholders' equity section of the balance sheet and is clearly identified as an appropriation of retained earnings.

505-10-45-**4** Costs or losses shall not be charged to an appropriation of retained earnings, and no part of the appropriation shall be transferred to income.

505-10-**50 - Disclosure**

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

505-10-50-**1** This Section provides guidance on the disclosure requirements associated with the separate accounts comprising shareholders' equity and the specific outstanding securities issued by an entity.

505-10-50-**2** If both financial position and results of operations are presented, disclosure of changes in the separate accounts comprising shareholders' equity (in addition to retained earnings) and of the changes in the number of shares of equity securities during at least the most recent annual fiscal period and any subsequent interim period presented is required to make the financial statements sufficiently informative. Disclosure of such changes may take the form of separate statements or may be made in the basic financial statements or notes thereto.

505-10-50-**3** An entity shall explain, in summary form within its financial statements, the pertinent rights and privileges of the various securities outstanding. Examples of information that shall be disclosed are dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking-fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares or terms that may change conversion or exercise prices (excluding standard antidilution provisions). An entity shall disclose within its financial statements the number of shares issued upon conversion, exercise, or satisfaction of required conditions during at least the most recent annual fiscal period and any subsequent interim period presented. An entity also shall disclose within the financial statements actual changes to conversion or exercise prices that occur during the reporting period (excluding changes due to standard antidilution provisions).

505-10-50-**3A** For a financial instrument with a down round feature that has been triggered during the reporting period and for which an entity has recognized the effect in accordance with paragraph 260-10-25-1, an entity shall disclose the following:

a. The fact that the feature has been triggered

b. The value of the effect of the down round feature that has been triggered.

Securities with Preferences

505-10-50-**4** An entity that issues preferred stock (or other senior stock) that has a preference in involuntary liquidation considerably in excess of the par or stated value of the shares shall disclose the liquidation preference of the stock (the relationship between the preference in liquidation and the par or stated value of the shares). That disclosure shall be made in the equity section of the statement of financial position in the aggregate, either parenthetically or in short, rather than on a per-share basis or through disclosure in the notes.

> **PENDING CONTENT**
>
> **Transition Date:** P June 30, 2027; N June 30, 2027 **- Transition Guidance :** 105-10-65-7
>
> An entity that issues preferred stock (or other senior stock) that has a preference in involuntary liquidation other than par or stated value of the shares shall disclose the liquidation preference of the stock (the relationship between the preference in liquidation and the par or stated value of the shares). That disclosure shall be made in the equity section of the statement of financial position in the aggregate, either parenthetically or in short, rather than on a per-share basis or through disclosure in the notes.

505-10-50-**5** In addition, an entity shall disclose both of the following within its financial statements (either on the face of the statement of financial position or in the notes thereto):

a. The aggregate or per-share amounts at which preferred stock may be called or is subject to redemption through sinking-fund operations or otherwise

b. The aggregate and per-share amounts of arrearages in cumulative preferred dividends.

Contingently Convertible Securities

505-10-50-**6** To comply with the general disclosure requirements of paragraph 505-10-50-3, the significant terms of the conversion features of the contingently convertible security shall be disclosed to enable users of financial statements to understand the circumstances of the contingency and the potential impact of conversion. Quantitative and qualitative terms of the contingently convertible security, disclosure of which would be helpful in understanding both the nature of the contingency and the potential impact of conversion, include all of the following:

a. Events or changes in circumstances that would cause the contingency to be met and any significant features necessary to understand the conversion rights and the timing of those rights (for example, the periods in which the contingency might be met and the securities may be converted if the contingency is met)

b. The conversion price and the number of shares into which a security is potentially convertible

c. Events or changes in circumstances, if any, that could adjust or change the contingency, conversion price, or number of shares, including significant terms of those changes

d. The manner of settlement upon conversion and any alternative settlement methods (for example, cash, shares, or a combination).

PENDING CONTENT

Transition Date: P December 16, 2021; N December 16, 2023 **- Transition Guidance :** 815-40-65-1

Editor's Note: Paragraph 505-10-50-6 will be superseded upon transition, together with its heading:

> **Contingently Convertible Securities**

Paragraph superseded by Accounting Standards Update No. 2020-06.

505-10-50-**7** In order to meet the disclosure requirements of the preceding paragraph, the possible conversion prices and dates as well as other significant terms for each convertible instrument shall be disclosed. For example:

The Company is obligated to issue X shares and as the market price of the common stock decreases, the Company is obligated to issue an additional X shares for each $1 decrease in the stock price.

PENDING CONTENT

Transition Date: P December 16, 2021; N December 16, 2023 **- Transition Guidance :** 815-40-65-1 Paragraph superseded by Accounting Standards Update No. 2020-06.

505-10-50-**8** Additionally, the issuer shall disclose in the notes to financial statements the terms of the transaction, including the excess of the aggregate fair value of the instruments that the holder would receive at conversion over the proceeds received and the period over which the discount is amortized.

PENDING CONTENT

Transition Date: P December 16, 2021; N December 16, 2023 **- Transition Guidance :** 815-40-65-1 Paragraph superseded by Accounting Standards Update No. 2020-06.

505-10-50-**9** Disclosures shall indicate whether the shares that would be issued if the contingently convertible securities were converted are included in the calculation of diluted earnings per share (EPS) and the reasons why or why not.

> **PENDING CONTENT**
>
> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Paragraph superseded by Accounting Standards Update No. 2020-06.

505-10-50-**10** Disclosures of information about derivative instruments entered into in connection with the issuance of the contingently convertible securities may be useful in terms of fully explaining the potential impact of the contingently convertible securities. That information might include the terms of those derivative instruments (including the terms of settlement), how those instruments relate to the contingently convertible securities, and the number of shares underlying the derivative instruments. One example of a transaction entered into in connection with the issuance of a contingently convertible security is the purchase of a call option such that the terms of the purchased call option would be expected to substantially offset changes in value of the written call option embedded in the convertible security. Derivative instruments are also subject to disclosure information, as required by Topic 815.

> **PENDING CONTENT**
>
> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Paragraph superseded by Accounting Standards Update No. 2020-06.

505-10-50-**10A** For incremental disclosure requirements of debt with conversion and other options, see paragraphs 470-20-10-2 and 470-20-50-3 through 50-6.

> **PENDING CONTENT**
>
> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Paragraph superseded by Accounting Standards Update No. 2020-06.

Redeemable Securities

505-10-50-**11** An entity that issues redeemable stock shall disclose the amount of redemption requirements, separately by issue or combined, for all issues of capital stock that are redeemable at fixed or determinable prices on fixed or determinable dates in each of the five years following the date of the latest statement of financial position presented.

Convertible Preferred Stock

505-10-50-**12**

> **PENDING CONTENT**
>
> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 The objective of the disclosure about convertible preferred stock is to provide users of financial statements with:
>
> a. Information about the terms and features of convertible preferred stock
>
> b. An understanding of how those instruments have been reported in an entity's statement of financial position and statement of financial performance
>
> c. Information about events, conditions, and circumstances that can affect how to assess the amount or timing of an entity's future cash flows related to those instruments.

505-10-50-**13**

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 To comply with the general disclosure requirements of paragraph 505-10-50-3, an entity shall explain the pertinent rights and privileges of each outstanding instrument, including, but not limited to, the following information:

a. Number of shares issued and par value

b. Dividends

c. Conversion or exercise prices or rates and number of shares into which the instrument is potentially convertible

d. Pertinent dates, such as conversion date(s)

e. Parties that control the conversion rights

f. Manner of settlement upon conversion and any alternative settlement methods, such as cash, shares, or a combination of cash and shares

g. Terms that may change conversion or exercise prices, number of shares to be issued, or other conversion rights and the timing of those rights (excluding standard antidilution provisions)

h. Liquidation preference required by paragraph 505-10-50-4 and unusual voting rights

i. Other material terms and features of the instrument that are not listed above.

505-10-50-**14**

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 An entity shall provide the following incremental information for contingently convertible instruments or the instruments that are described in paragraphs 505-10-05-6 through 05-7:

a. Events or changes in circumstances that would adjust or change the contingency or would cause the contingency to be met

b. Information on whether the shares that would be issued if the contingently convertible securities were converted are included in the calculation of diluted earnings per share (EPS) and the reasons why or why not

c. Other information that is helpful in understanding both the nature of the contingencies and the potential impact of conversion.

505-10-50-**15**

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 An entity shall disclose the amount of dividends declared for each period for which a statement of financial performance is presented, in addition to the disclosures required by paragraph 505-10-50-5.

505-10-50-**16**

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 An entity shall disclose the following as of the date of the latest statement of financial position presented:

a. Changes to conversion or exercise prices that occur during the reporting period other than changes due to standard antidilution provisions

b. Events or changes in circumstances that occur during the reporting period that cause conversion contingencies to be met or conversion terms to be significantly changed

c. The number of shares issued upon conversion, exercise, or satisfaction of required conditions during the reporting period.

505-10-50-**17**

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 If a conversion option is accounted for as a derivative in accordance with Subtopic 815-15, an entity shall provide disclosures in accordance with Topic 815 for the conversion option in addition to the disclosures required by the guidance in this Section, if applicable.

505-10-50-**18**

PENDING CONTENT

Transition Date: (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 An entity shall disclose the following information about derivative transactions entered into in connection with the issuance of convertible preferred stock within the scope of this Subtopic regardless of whether such derivative transactions are accounted for as assets, liabilities, or equity instruments:

a. The terms of those derivative transactions (including the terms of settlement)

b. How those derivative transactions relate to the instruments within the scope of this Subtopic

c. The number of shares underlying the derivative transactions

d. The reasons for entering into those derivative transactions.

505-10-**60 - Relationships**

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Comprehensive Income

505-10-60-**1** For guidance on the required presentation and disclosure related to other comprehensive income, see paragraphs 220-10-45-1 through 45-17.

Debt

505-10-60-**2** For guidance on the measurement and recognition as equity of beneficial conversion features of convertible debt and certain preferred stock, see Subtopic 470-20.

> **PENDING CONTENT**
>
> **Transition Date:** (P) December 16, 2021; (N) December 16, 2023 **- Transition Guidance :** 815-40-65-1 Paragraph superseded by Accounting Standards Update No. 2020-06.

505-10-60-**3** For guidance on the need to allocate proceeds from the sale of debt with stock purchase warrants to the debt and the warrants, see Subtopic 470-20.

Distinguishing Liabilities from Equity

505-10-60-**3A** For guidance on whether a specific financial instrument shall be classified as equity or outside of the equity classification, see Topic 480.

Consolidation

505-10-60-**4** For guidance on the treatment of shares of a parent held by its subsidiary in the consolidated balance sheet, see paragraph 810-10-45-5. For guidance on the accounting for the purchase (early extinguishment) of a wholly owned subsidiary's mandatorily redeemable preferred stock, see paragraphs 810-10-40-1 through 40-2A.

Derivatives and Hedging

505-10-60-**5** For guidance on the potential classification of an embedded derivative as an equity instrument, see Topic 815.

Financial Instruments

505-10-60-**6** For guidance on the accounting for a registration payment arrangement, see Subtopic 825-20.

505-10-60-**7** For guidance on the accounting for an equity-classified freestanding financial instrument with a down round feature, see Topic 260 on earnings per share.

505-10-60-**8** For guidance on accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange, see Subtopic 815-40 on contracts in entity's own equity.

505-10-**S00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

505-10-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
505-10-S25-2	Superseded	Accounting Standards Update No. 2012-03	08/27/2012
505-10-S45-10	Superseded	Accounting Standards Update No. 2012-03	08/27/2012
505-10-S50-4	Superseded	Accounting Standards	08/27/2012

		Update No. 2012-03	
505-10-S50-5	Amended	Accounting Standards Update No. 2020-09	10/22/2020
505-10-S50-6	Amended	Accounting Standards Update No. 2020-09	10/22/2020
505-10-S50-7 through S50-9	Superseded	Accounting Standards Update No. 2020-09	10/22/2020
505-10-S99-1	Amended	Accounting Standards Update No. 2019-07	07/26/2019
505-10-S99-1	Amended	Accounting Standards Update No. 2010-21	08/02/2010
505-10-S99-2	Amended	Accounting Standards Update No. 2019-07	07/26/2019
505-10-S99-6	Superseded	Accounting Standards Update No. 2010-22	08/19/2010
505-10-S99-7	Amended	Accounting Standards Update No. 2012-03	08/27/2012

505-10-**S25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

Expenses Related to an Equity Offering

505-10-S25-**1** See paragraph 340-10-S99-1, SAB Topic 5.A, for SEC Staff views on deferral of expenses related to an equity offering.

505-10-S25-**2** Paragraph superseded by Accounting Standards Update No. 2012-03.

505-10-**S30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

Increasing Rate Preferred Stock

505-10-S30-**1** See paragraph 505-10-S99-7, SAB Topic 5.Q., Question 1, for SEC Staff views on increasing rate preferred stock.

505-10-**S35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

Increasing Rate Preferred Stock

505-10-S35-**1** See paragraph 505-10-S99-7, SAB Topic 5.Q, Questions 2 and 3, for SEC Staff views on increasing rate preferred stock.

505-10-**S45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Discounts on and Unamortized Balances of Shares

505-10-S45-**1** See paragraph 505-10-S99-2, Regulation S-X Rule 4-07, for requirements on presenting discounts on shares and unamortized balances of shares.

Preferred Stock that Is Not Redeemable or Redeemable Solely at the Option of the Issuer

505-10-S45-**2** See paragraph 210-10-S99-1, Regulation S-X Rule 5-02.29, for requirements on presenting preferred stock that is not redeemable or redeemable solely at the option of the issuer.

Common Stock

505-10-S45-**3** See paragraph 210-10-S99-1, Regulation S-X Rule 5-02.30, for presentation requirements for common stock.

Other Stockholders' Equity

505-10-S45-**4** See paragraph 210-10-S99-1, Regulation S-X Rule 5-02.31, for presentation requirements for other stockholders' equity.

Subordinated Debt

505-10-S45-**5** See paragraph 470-10-S99-2, SAB Topic 4.A, for SEC Staff views on prohibiting the presentation of subordinated debt within stockholders' equity.

Presentation of S Corporation Undistributed Earnings in Financial Statements upon Termination of S Election

505-10-S45-**6** See paragraph 505-10-S99-3, SAB Topic 4.B, for SEC Staff views on presenting S corporation undistributed earnings on the date the S election is terminated.

Receivables Arising from the Issuance of Capital Stock to Officers and Other Employees

505-10-S45-**7** See paragraph 310-10-S99-2, SAB Topic 4.E, for SEC Staff views on presenting receivables arising from sales of capital stock to officers and other employees.

Presentation of Equity Section in Limited Partnership Financial Statements

505-10-S45-**8** See paragraph 505-10-S99-5, SAB Topic 4.F, for SEC Staff views on presenting equity in limited partnership financial statements.

Presentation of Notes and Other Receivables in a General Partner's Balance Sheet

505-10-S45-**9** See paragraph 310-10-S99-3, SAB Topic 4.G, for SEC Staff views on presenting certain notes and other receivables in a general partner's balance sheet.

505-10-S45-**10** Paragraph superseded by Accounting Standards Update No. 2012-03.

505-10-**S50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Changes in Each Caption of Other Stockholders' Equity

505-10-S50-**1** See paragraph 505-10-S99-1, Regulation S-X Rule 3-04, for disclosure requirements for changes in stockholders' equity.

Preferred Shares

505-10-S50-**2** See paragraph 235-10-S99-1, Regulation S-X Rule 4-08(d), for disclosure requirements for preferred shares.

Restrictions that Limit the Payment of Dividends by the Registrant

505-10-S50-**3** See paragraph 235-10-S99-1, Regulation S-X Rule 4-08(e), for disclosure requirements for restrictions that limit the payment of dividends by the registrant.

505-10-S50-**4** Paragraph superseded by Accounting Standards Update No. 2012-03.

Guarantors and Issuers of Guaranteed Securities Registered or Being Registered

505-10-S50-**5** See paragraph 470-10-S99-1, Regulation S-X Rule 3-10, for requirements applicable to financial statements of guarantors and issuers of guaranteed debt or debt-like securities registered or being registered.

505-10-S50-**6** See paragraph 470-10-S99-1A, Regulation S-X Rule 13-01, for disclosure requirements about guarantors and issuers of guaranteed debt or debt-like securities registered or being registered.

505-10-S50-**7** Paragraph superseded by Accounting Standards Update No. 2020-09.

505-10-S50-**8** Paragraph superseded by Accounting Standards Update No. 2020-09.

505-10-S50-**9** Paragraph superseded by Accounting Standards Update No. 2020-09.

505-10-**S99 - SEC Materials**

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Rules, Regulations, and Interpretations

Regulation S-X

Regulation S-X Rule 3-04, Changes in Other Stockholders' Equity and Noncontrolling Interests

505-10-S99-**1** The following is the text of Regulation S-X Rule 3-04, Changes in Other Stockholders' Equity and Noncontrolling Interests (17 CFR 210.3-04).

> An analysis of the changes in each caption of stockholders' equity and noncontrolling interests presented in the balance sheets shall be given in a note or separate statement. This analysis shall be presented in the form of a reconciliation of the beginning balance to the ending balance for each period for which a statement of comprehensive income is required to be filed with all significant reconciling items described by appropriate captions with contributions from and distributions to owners shown separately. Also, state separately the adjustments to the balance at the beginning of the earliest period presented for items which were retroactively applied to periods prior to that period. With respect to any dividends, state the amount per share and in the aggregate for each class of shares. Provide a separate schedule in the notes to the financial statements that shows the effects of any changes in the registrant's ownership interest in a subsidiary on the equity attributable to the registrant.
>
> [83 FR 50199, Oct. 4, 2018]

Regulation S-X Rule 4-07, Discount on Shares

505-10-S99-**2** The following is the text of Regulation S-X Rule 4-07, Discount on Shares (17 CFR 210.4-07).

> Discount on shares, or any unamortized balance thereof, shall be shown separately as a deduction from the applicable account(s) as circumstances require.

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 4.B, S Corporations

505-10-S99-**3** The following is the text of SAB Topic 4.B, S Corporations.

Facts: An S corporation has undistributed earnings on the date its S election is terminated.

Question: How should such earnings be reflected in the financial statements?

Interpretive Response: Such earnings must be included in the financial statements as additional paid-in capital. This assumes a constructive distribution to the owners followed by a contribution to the capital of the corporation.

SAB Topic 4.C, Changes in Capital Structure

505-10-S99-**4** The following is the text of SAB Topic 4.C, Changes in Capital Structure.

Facts: A capital structure change to a stock dividend, stock split or reverse split occurs after the date of the latest reported balance sheet but before the release of the financial statements or the effective date of the registration statement, whichever is later.

Question: What effect must be given to such a change?

Interpretive Response: Such changes in the capital structure must be given retroactive effect in the balance sheet.

An appropriately cross-referenced note should disclose the retroactive treatment, explain the change made and state the date the change became effective.

SAB Topic 4.F, Limited Partnerships

505-10-S99-**5** The following is the text of SAB Topic 4.F, Limited Partnerships.

Facts: There exist a number of publicly held partnerships having one or more corporate or individual general partners and a relatively larger number of limited partners. There are no specific requirements or guidelines relating to the presentation of the partnership equity accounts in the financial statements. In addition, there are many approaches to the parallel problem of relating the results of operations to the two classes of partnership equity interests.

Question: How should the financial statements of limited partnerships be presented so that the two ownership classes can readily determine their relative participations in both the net assets of the partnership and in the results of its operations?

Interpretive Response: The equity section of a partnership balance sheet should distinguish between amounts ascribed to each ownership class. The equity attributed to the general partners should be stated separately from the equity of the limited partners, and changes in the number of equity units authorized and outstanding should be shown for each ownership class. A statement of changes in partnership equity for each ownership class should be furnished for each period for which an income statement is included.

The income statements of partnerships should be presented in a manner which clearly shows the aggregate amount of net income (loss) allocated to the general partners and the aggregate amount allocated to the limited partners. The statement of income should also state the results of operations on a per unit basis.

SAB Topic 5.H, Accounting for Sales of Stock by a Subsidiary

505-10-S99-**6** Paragraph superseded by Accounting Standards Update No. 2010-22.

SAB Topic 5.Q, Increasing Rate Preferred Stock

505-10-S99-**7** The following is the text of SAB Topic 5.Q, Increasing Rate Preferred Stock.

Facts: A registrant issues Class A and Class B nonredeemable preferred stock FN19 on 1/1/X1. Class A, by its terms, will pay no dividends during the years 20X1 through 20X3. Class B, by its terms, will pay dividends at annual rates of $2, $4 and $6 per share in the years 20X1, 20X2 and 20X3, respectively. Beginning in the year 20X4 and thereafter as long as they remain outstanding, each instrument will pay dividends at an annual rate of $8 per share. In all periods, the scheduled dividends are cumulative.

FN19 "Nonredeemable" preferred stock, as used in this SAB, refers to preferred stocks which are not redeemable or are redeemable only at the option of the issuer.

At the time of issuance, eight percent per annum was considered to be a market rate for dividend yield on Class A, given its characteristics other than scheduled cash dividend entitlements (voting rights, liquidation preference, etc.), as well as the registrant's financial condition and future economic prospects. Thus, the registrant could have expected to receive proceeds of approximately $100 per share for Class A if the dividend rate of $8 per share (the "perpetual dividend") had been in effect at date of issuance. In consideration of the dividend payment terms, however, Class A was issued for proceeds of $79 3/8 per share. The difference, $20 5/8, approximated the value of the absence of $8 per share dividends annually for three years, discounted at 8%.

The issuance price of Class B shares was determined by a similar approach, based on the terms and characteristics of the Class B shares.

Question 1: How should preferred stocks of this general type (referred to as "increasing rate preferred stocks") be reported in the balance sheet?

Interpretive Response: As is normally the case with other types of securities, increasing rate preferred stock should be recorded initially at its fair value on date of issuance. Thereafter, the carrying amount should be increased periodically as discussed in the Interpretive Response to Question 2.

Question 2: Is it acceptable to recognize the dividend costs of increasing rate preferred stocks according to their stated dividend schedules?

Interpretive Response: No. The staff believes that when consideration received for preferred stocks reflects expectations of future dividend streams, as is normally the case with cumulative preferred stocks, any discount due to an absence of dividends (as with Class A) or gradually increasing dividends (as with Class B) for an initial period represents prepaid, unstated dividend cost. FN20 Recognizing the dividend cost of these instruments according to their stated dividend schedules would report Class A as being cost-free, and would report the cost of Class B at less than its effective cost, from the standpoint of common stock interests (i. e., for purposes of computing income applicable to common stock and earnings per common share) during the years 20X1 through 20X3.

FN20 As described in the "Facts" section of this issue, a registrant would receive less in proceeds for a preferred stock, if the stock were to pay less than its perpetual dividend for some initial period(s), than if it were to pay the perpetual dividend from date of issuance. The staff views the discount on increasing rate preferred stock as equivalent to a prepayment of dividends by the issuer, as though the issuer had concurrently (a) issued the stock with the perpetual dividend being payable from date of issuance, and (b) returned to the investor a portion of the proceeds representing the present value of certain future dividend entitlements which the investor agreed to forgo.

Accordingly, the staff believes that discounts on increasing rate preferred stock should be amortized over the period(s) preceding commencement of the perpetual dividend, by charging imputed dividend cost against retained earnings and increasing the carrying amount of the preferred stock by a corresponding amount. The discount at time of issuance should be computed as the present value of the difference between (a) dividends that will be payable, if any, in the period(s) preceding commencement of the perpetual dividend; and (b) the perpetual dividend amount for a corresponding number of periods; discounted at a market rate for dividend yield on preferred stocks that are comparable (other than with respect to dividend payment schedules) from an investment standpoint. The amortization in each period should be the amount which, together with any stated dividend for the period (ignoring fluctuations in stated dividend amounts that might result from variable rates, FN21 results in a constant rate of effective cost vis-a-vis the carrying amount of the preferred stock (the market rate that was used to compute the discount).

FN21 See Question 3 regarding variable increasing rate preferred stocks.

Simplified (ignoring quarterly calculations) application of this accounting to the Class A preferred stock described in the "Facts" section of this bulletin would produce the following results on a per share basis:

Carrying amount of preferred stock

	Beginning of Year (BOY)	Imputed Dividend (8% of carrying Amount at BOY)	End of year
Year 20X1	$ 79.38	6.35	85.73
Year 20X2	85.73	6.86	92.59
Year 20X3	92.59	7.41	100.00

During 20X4 and thereafter, the stated dividend of $8 measured against the carrying amount of $100 FN22 would reflect dividend cost of 8%, the market rate at time of issuance.

FN22 It should be noted that the $100 per share amount used in this issue is for illustrative purposes, and is not intended to imply that application of this issue will necessarily result in the carrying amount of a nonredeemable preferred stock being accreted to its par value, stated value, voluntary redemption value or involuntary liquidation value.

The staff believes that existing authoritative literature, while not explicitly addressing increasing rate preferred stocks, implicitly calls for the accounting described in this bulletin.

The pervasive, fundamental principle of accrual accounting would, in the staff's view, preclude registrants from recognizing the dividend cost on the basis of whatever cash payment schedule might be arranged. Furthermore, recognition of the effective cost of unstated rights and privileges is well-established in accounting, and is specifically called for by FASB ASC Subtopic 835-30, Interest-Imputation of Interest, and Topic 3.C of this codification for unstated interest costs of debt capital and unstated dividend costs of redeemable preferred stock capital, respectively. The staff believes that the requirement to recognize the effective periodic cost of capital applies also to nonredeemable preferred stocks because, for that purpose, the distinction between debt capital and preferred equity capital (whether redeemable FN23 or nonredeemable) is irrelevant from the standpoint of common stock interests.

FN23 Application of the interest method with respect to redeemable preferred stocks pursuant to Topic 3.C results in accounting consistent with the provisions of this bulletin irrespective of whether the redeemable preferred stocks have constant or increasing stated dividend rates. The interest method, as described in FASB ASC Subtopic 835-30, produces a constant effective periodic rate of cost that is comprised of amortization of discount as well as the stated cost in each period.

Question 3: Would the accounting for discounts on increasing rate preferred stock be affected by variable stated dividend rates?

Interpretive Response: No. If stated dividends on an increasing rate preferred stock are variable, computations of initial discount and subsequent amortization should be based on the value of the applicable index at date of issuance and should not be affected by subsequent changes in the index.

For example, assume that a preferred stock issued 1/1/X1 is scheduled to pay dividends at annual rates, applied to the stock's par value, equal to 20% of the actual (fluctuating) market yield on a particular Treasury security in 20X1 and 20X2, and 90% of the fluctuating market yield in 20X3 and thereafter. The discount would be computed as the present value of a two-year dividend stream equal to 70% (90% less 20%) of the 1/1/X1 Treasury security yield, annually, on the stock's par value. The discount would be amortized in years 20X1 and 20X2 so that, together with 20% of the 1/1/X1 Treasury yield on the stock's par value, a constant rate of cost vis-a-vis the stock's carrying amount would result. Changes in the Treasury security yield during 20X1 and 20X2 would, of course, cause the rate of total reported preferred dividend cost (amortization of discount plus cash dividends) in those years to be more or less than the rate indicated by discount amortization plus 20% of the 1/1/X1 Treasury security yield. However, the fluctuations would be due solely to the impact of changes in the index on the stated dividends for those periods.

Question 4: Will the staff expect retroactive changes by registrants to comply with the accounting described in this bulletin?

Interpretive Response: All registrants will be expected to follow the accounting described in this bulletin for increasing rate preferred stocks issued after December 4, 1986. FN24 Registrants that have not followed this accounting for increasing rate preferred stocks issued before that date were encouraged to retroactively change their accounting for those preferred stocks in the financial statements next filed with the Commission. The staff did not object if registrants did not make retroactive changes for those preferred stocks, provided that all presentations of and discussions regarding income applicable to common stock and earnings per share in future filings and shareholders' reports are accompanied by equally prominent supplemental disclosures (on the face of the income statement, in presentations of selected financial data, in MD&A, etc.) of the impact of not changing their accounting and an explanation of such impact (e. g., that dividend cost has been recognized on a cash basis).

FN24 The staff first publicly expressed its view as to the appropriate accounting at the December 3-4, 1986 meeting of the EITF.

505-**20 - Stock Dividends and Stock Splits**

505-20-**00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

505-20-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	**Action**	**Accounting Standards Update**	**Date**

Fair Value (3rd def.)	Added	Accounting Standards Update No. 2012-04	10/01/2012
Stock Dividend	Amended	Accounting Standards Update No. 2010-01	01/05/2010
505-20-05-2	Amended	Accounting Standards Update No. 2012-04	10/01/2012
505-20-05-3	Superseded	Accounting Standards Update No. 2010-01	01/05/2010
505-20-05-4	Amended	Accounting Standards Update No. 2012-04	10/01/2012
505-20-05-4	Amended	Accounting Standards Update No. 2010-01	01/05/2010
505-20-15-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-20-15-2	Amended	Accounting Standards Update No. 2010-01	01/05/2010
505-20-15-3A	Added	Accounting Standards Update No. 2010-01	01/05/2010
505-20-65-1	Added	Accounting Standards Update No. 2010-01	01/05/2010

505-20-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

505-20-05-**1** This Subtopic addresses the accounting for stock dividends and stock splits. It includes guidance for the recipient as well as for the issuer.

505-20-05-**2** Many recipients of stock dividends look upon them as distributions of corporate earnings, and usually in an amount equivalent to the fair value of the additional shares received. If the issuances of stock dividends are so small in comparison with the shares previously outstanding, such issuances generally do not have any apparent effect on the share market price and, consequently, the fair value of the shares previously held remains substantially unchanged.

505-20-05-**3** Paragraph superseded by Accounting Standards Update No. 2010-01.

505-20-05-**4** If there is an increase in the fair value of a recipient's holdings, such unrealized appreciation is not income. In the case of a stock dividend or stock split, there is no distribution, division, or severance of corporate assets. Moreover, there is nothing resulting therefrom that the shareholder can realize without parting with some of his or her proportionate interest in the corporation.

505-20-05-**5** See paragraph 260-10-55-12 for earnings per share (EPS) guidance if the number of common shares outstanding increases as a result of a stock dividend or stock split.

505-20-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Entities

505-20-15-**1** The guidance in this Subtopic applies to all entities that are corporations.

Transactions

505-20-15-**2** The guidance in this Subtopic applies to all stock dividends and stock splits, with specific exceptions noted in paragraphs 505-20-15-3 through 15-3A.

505-20-15-**3** The guidance in this Subtopic does not apply to the accounting for a distribution or issuance to shareholders of any of the following:

a. Shares of another corporation held as an investment

b. Shares of a different class

c. Rights to subscribe for additional shares

d. Shares of the same class in cases in which each shareholder is given an election to receive cash or shares.

505-20-15-**3A** Item (d) in the preceding paragraph includes, but is not limited to, a distribution having both of the following characteristics:

a. The shareholder has the ability to elect to receive the shareholder's entire distribution in cash or shares of equivalent value.

b. There is a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate.

For guidance on recognition of an entity's commitment to make a distribution described in the preceding paragraph, see paragraph 480-10-25-14. For guidance on computation of diluted EPS of an entity's commitment to make such a distribution, see the guidance in paragraphs 260-10-45-45 through 45-47.

505-20-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an market participants at the measurement date.

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms

b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary

c. They are able to enter into a transaction for the asset or liability

d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Related Parties

Related parties include:

a. Affiliates of the entity

b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity

c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management

d. Principal owners of the entity and members of their immediate families

e. Management of the entity and members of their immediate families

f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests

g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Stock Dividend

An issuance by a corporation of its own common shares to its common shareholders without consideration and under conditions indicating that such action is prompted mainly by a desire to give the recipient shareholders some ostensibly separate evidence of a part of their respective interests in accumulated corporate earnings without distribution of cash or other property that the board of directors deems necessary or desirable to retain in the business. A stock dividend takes nothing from the property of the corporation and adds nothing to the interests of the stockholders; that is, the corporation's property is not diminished and the interests of the stockholders are not increased. The proportional interest of each shareholder remains the same.

Stock Split

An issuance by a corporation of its own common shares to its common shareholders without consideration and under conditions indicating that such action is prompted mainly by a desire to increase the number of outstanding shares for the purpose of effecting a reduction in their unit market price and, thereby, of obtaining wider distribution and improved marketability of the shares. Sometimes called a stock split-up.

505-20-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

Criteria for Treatment as Stock Dividend or Stock Split

505-20-25-**1** This Section provides guidance on determining whether stock dividends and stock splits are to be accounted for in accordance with their actual form or whether their substance requires different accounting.

Stock Dividend in Form

505-20-25-**2** The number of additional shares issued as a stock dividend may be so great that it has, or may reasonably be expected to have, the effect of materially reducing the share market value. In such a situation, because the implications and possible shareholder belief discussed in paragraph 505-20-30-3 are not likely to exist, the substance of the transaction is clearly that of a stock split.

505-20-25-**3** The point at which the relative size of the additional shares issued becomes large enough to materially influence the unit market price of the stock will vary with individual entities and under differing market conditions and, therefore, no single percentage can be established as a standard for determining when capitalization of retained earnings in excess of legal requirements is called for and when it is not. Except for a few instances, the issuance of additional shares of less than 20 or 25 percent of the number of previously outstanding shares would call for treatment as a stock dividend as described in paragraph 505-20-30-3.

Stock Split in Form

505-20-25-**4** A stock split is confined to transactions involving the issuance of shares, without consideration to the corporation, for the purpose of effecting a reduction in the unit market price of shares of the class issued and, therefore, of obtaining wider distribution and improved marketability of the shares.

505-20-25-**5** Few cases will arise in which the aforementioned purpose can be accomplished through an issuance of shares that is less than 20 or 25 percent of the previously outstanding shares.

505-20-25-**6** The corporation's representations to its shareholders as to the nature of the issuance is one of the principal considerations in determining whether it shall be recorded as a stock dividend or a stock split. Nevertheless, the issuance of new shares in ratios of less than 20 or 25 percent of the previously outstanding shares, or the frequent recurrence of issuances of shares, would destroy the presumption that transactions represented to be stock splits shall be recorded as stock splits.

505-20-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

505-20-30-**1** This Section provides guidance for the issuer and recipient of either a stock dividend or a stock split.

Issuer's Accounting for a Stock Dividend or Stock Split

505-20-30-**2** Section 505-20-25 provides guidance on determining whether a stock dividend or a stock split shall be accounted for according to its form or whether it shall be accounted for differently. The following guidance addresses the accounting for the substantive nature of the transaction as either a stock dividend or a stock split.

Stock Dividend

505-20-30-**3** In accounting for a stock dividend, the corporation shall transfer from retained earnings to the category of capital stock and additional paid-in capital an amount equal to the fair value of the additional shares issued. Unless this is done, the amount of earnings that the shareholder may believe to have been distributed to him or her will be left, except to the extent otherwise dictated by legal requirements, in retained earnings subject to possible further similar stock issuances or cash distributions.

505-20-30-**4** The accounting required in the preceding paragraph will likely result in the capitalization of retained earnings in an amount in excess of that called for by the laws of the state of incorporation; such laws generally require the capitalization only of the par value of the shares issued, or, in the case of shares without par value, an amount usually within the discretion of the board of directors. However, these legal requirements are, in effect, minimum requirements and do not prevent the capitalization of a larger amount per share.

Alternative Treatment Permitted for Closely Held Entity

505-20-30-**5** In cases of closely held entities, it is presumed that the intimate knowledge of the corporations' affairs possessed by their shareholders would preclude any implications and possible shareholder belief as are referred to in paragraph 505-20-30-3. In such cases, there is no need to capitalize retained earnings other than to meet legal requirements.

Stock Split

505-20-30-**6** In the case of a stock split, there is no need to capitalize retained earnings, other than to the extent occasioned by legal requirements.

Recipient's Accounting for a Stock Dividend or Stock Split

505-20-30-**7** A shareholder's interest in the corporation remains unchanged by a stock dividend or stock split except as to the number of share units constituting such interest. Therefore, the cost of the shares previously held shall be allocated equitably to the total shares held after receipt of the stock dividend or stock split. When any shares are later disposed of, a gain or loss shall be determined on the basis of the adjusted cost per share.

505-20-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

505-20-50-**1** Paragraph 505-20-25-2 identifies a situation in which a stock dividend in form is a stock split in substance. In such instances every effort shall be made to avoid the use of the word dividend in related corporate resolutions, notices, and announcements and that, in those cases in which because of legal requirements this cannot be done, the transaction be described, for example, as a stock split effected in the form of a dividend.

505-20-**65 - Transition and Open Effective Date Information**

> **General Note:** The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This Section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

505-20-65-**1** Paragraph superseded on 07/01/2010 after the end of the transition period stated in Accounting Standards Update No. 2010-01, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash.

505-20-**S25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

Accounting for Dividends Declared by a Subsidiary After Balance Sheet Date

505-20-S25-**1** See paragraph 855-10-S99-1, SAB Topic 1.B, Question 3, for SEC Staff views on accounting for dividends declared by a subsidiary after the balance sheet date.

Capital Structure Change After the Latest Balance Sheet but Before the Release of the Financial Statements

505-20-S25-**2** See paragraph 505-10-S99-4, SAB Topic 4.C, for SEC Staff views on accounting for a change in capital structure after the latest balance sheet but before the release of the financial statements.

Issuance of "Free Distributions" By Japanese Companies

505-20-S25-**3** See paragraph 505-20-S99-1, SAB Topic 1.D.2, for SEC Staff views on accounting for the issuance of "free distributions" of common stock by Japanese companies.

505-20-**S50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

Accounting for Dividends Declared After Balance Sheet Date

505-20-S50-**1** See paragraph 855-10-S99-1, SAB Topic 1.B.3, for SEC Staff views on disclosures pertaining to dividends declared after the balance sheet date.

Capital Structure Change After the Latest Balance Sheet but Before the Release of the Financial Statements

505-20-S50-**2** See paragraph 505-10-S99-4, SAB Topic 4.C, for SEC Staff views on disclosures pertaining to a capital structure change after the latest balance sheet but before the release of the financial statements.

Issuance of "Free Distributions" by Japanese Companies

505-20-S50-**3** See paragraph 505-20-S99-1, SAB Topic 1.D.2, for SEC Staff views on disclosures pertaining to the issuance of "free distributions" by Japanese companies.

505-20-**S99 - SEC Materials**

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 1.D.2, "Free Distributions" by Japanese Companies

505-20-S99-**1** The following is the text of SAB Topic 1.D.2, "Free Distributions" by Japanese Companies.

Facts: It is the general practice in Japan for corporations to issue "free distributions" of common stock to existing shareholders in conjunction with offerings of common stock so that such offerings may be made at less than market. These free distributions usually are from 5 to 10 percent of outstanding stock and are accounted for in accordance with provisions of the Commercial Code of Japan by a transfer of the par value of the stock distributed from paid-in capital to the common stock account. Similar distributions are sometimes made at times other than when offering new stock and are also designated "free distributions." U.S. accounting practice would require that the fair value of such shares, if issued by U.S. companies, be transferred from retained earnings to the appropriate capital accounts.

Question: Should the financial statements of Japanese corporations included in Commission filings which are stated to be prepared in accordance with U.S. GAAP be adjusted to account for stock distributions of less than 25 percent of outstanding stock by transferring the fair value of such stock from retained earnings to appropriate capital accounts?

Interpretive Response: If registrants and their independent accountants believe that the institutional and economic environment in Japan with respect to the registrant is sufficiently different that U.S. accounting principles for stock dividends should not apply to free distributions, the staff will not object to such distributions being accounted for at par value in accordance with Japanese practice.

If such financial statements are identified as being prepared in accordance with U.S. GAAP, then there should be footnote disclosure of the method being used which indicates that U.S. companies issuing shares in comparable amounts would be required to account for them as stock dividends, and including in such disclosure the fair value of any such shares issued during the year and the cumulative amount (either in an aggregate figure or a listing of the amounts by year) of the fair value of shares issued over time.

505-**30 - Treasury Stock**

505-30-**00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

505-30-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Fair Value (3rd def.)	Added	Accounting Standards Update No. 2012-04	10/01/2012
505-30-15-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-30-55-3	Amended	Accounting Standards Update No. 2012-04	10/01/2012
505-30-60-1	Amended	Maintenance Update 2017-19	11/15/2017

505-30-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

505-30-05-**1** This Subtopic addresses the accounting and reporting for an entity's repurchase of its own outstanding common stock as well as the subsequent constructive or actual retirement of those shares.

505-30-05-**2** Entities may repurchase their own outstanding common stock for a variety of different purposes. Repurchased common stock is often referred to as treasury stock or treasury shares.

505-30-05-**3** When entities repurchase their own common stock, laws applicable to those entities may affect the treatment and accounting for repurchased shares of stock. Entities sometimes pay more or less for the repurchased shares than either their fair value or their original issue price.

505-30-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some

cases, the Section may contain definitional or other text to frame the scope.

General

Entities

505-30-15-**1** The guidance in this Subtopic applies to all entities, unless more specific guidance is provided in other Topics.

Transactions

505-30-15-**2** The guidance in this Subtopic applies to all transactions involving the repurchase of an entity's own outstanding common stock as well as the subsequent constructive or actual retirement of those shares, unless more specific guidance for those transactions is provided in other Topics.

505-30-**20 - Glossary**

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an market participants at the measurement date.

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms

b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary

c. They are able to enter into a transaction for the asset or liability

d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Orderly Transaction

A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale).

Related Parties

Related parties include:

a. Affiliates of the entity

b. Entities for which investments in their equity securities would be required, absent the election of the fair value option under the [Fair Value Option Subsection] of Section 825-10-15, to be accounted for by the equity method by the investing entity

c. Trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management

d. Principal owners of the entity and members of their immediate families

e. Management of the entity and members of their immediate families

f. Other parties with which the entity may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests

g. Other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

505-30-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

505-30-25-**1** This Section addresses the accounting requirements for the differences in amounts that result in either of the following situations:

a. An entity repurchases its own outstanding common stock for an amount that differs from the price obtainable in open market transactions.

b. An entity subsequently resells previously repurchased common stock for an amount that differs from the repurchase amount paid.

This Section also identifies a program to acquire treasury shares, often described as an accelerated share repurchase program, as two separate transactions.

505-30-25-**2** Laws of some states govern the circumstances under which an entity may acquire its own stock and prescribe the accounting treatment therefor. If such requirements are at variance with the requirements of paragraphs 505-30-25-7 and 505-30-30-6 through 30-10, the accounting shall conform to the applicable law.

Requirement to Allocate Repurchase Amount

505-30-25-**3** The facts and circumstances associated with a share repurchase may suggest that the total payment relates to other than the shares repurchased. An entity offering to repurchase shares only from a specific shareholder (or group of shareholders) suggests that the repurchase may involve more than the purchase of treasury shares. Also, if an entity repurchases shares at a price that is different from the price obtainable in transactions in the open market or transactions in which the identity of the selling shareholder is not important, some portion of the amount being paid presumably represents a payment for stated or unstated rights or privileges that shall be given separate accounting recognition. See paragraph 505-30-30-3 for the measurement requirements associated with the different elements identified within such a transaction.

505-30-25-**4** Payments by an entity to a shareholder or former shareholder attributed, for example, to a standstill agreement, or any agreement in which a shareholder or former shareholder agrees not to purchase additional shares, shall be expensed as incurred. Such payments do not give rise to assets of the entity.

Accelerated Share Repurchase Programs

505-30-25-**5** An accelerated share repurchase program is a combination of transactions that permits an entity to repurchase a targeted number of shares immediately with the final repurchase price of those shares determined by an average market price over a fixed period of time. An accelerated share repurchase program is intended to combine the immediate share retirement benefits of a tender offer with the market impact and pricing benefits of a disciplined daily open market stock repurchase program.

505-30-25-**6** An entity shall account for such an accelerated share repurchase program as the following two separate transactions:

a. As shares of common stock acquired in a treasury stock transaction recorded on the acquisition date

b. As a forward contract indexed to its own common stock. Subtopic 815-40 provides guidance on the accounting for contracts that are indexed to an entity's own common stock.

Example 1 (see paragraph 505-30-55-1) provides an illustration of an accelerated share repurchase program that is addressed by this guidance.

Subsequent Resale of Shares Repurchased

505-30-25-**7** After an entity's repurchase of its own outstanding common stock, sometimes it may either retire the repurchased shares and issue additional common shares, or, as an alternative, resell the repurchased shares. In either case, the price received may differ from the amount paid to repurchase the shares. While the net asset value of the shares of common stock outstanding in the hands of the public may be increased or decreased by such repurchase and retirement, such transactions relate to the capital of the corporation and do not give rise to corporate profits or losses. There is no essential difference between the following:

a. The repurchase and retirement of a corporation's own common stock and the subsequent issue of common shares

b. The repurchase and resale of its own common stock.

505-30-25-**8** Even though there may be cases where the transactions involved are so inconsequential as to be immaterial, as a broad general principle, such transactions shall not be reflected in retained earnings (either directly or through inclusion in the income statement). The qualification shall not be applied to any transaction that, although in itself inconsiderable in amount, is a part of a series of transactions that in the aggregate are of substantial importance.

505-30-25-**9** The difference between the repurchase and resale prices of a corporation's own common stock shall be reflected as part of the capital of a corporation and allocated to the different components within stockholder equity as required by paragraphs 505-30-30-5 through 30-10.

505-30-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

505-30-30-**1** This Section provides guidance on measuring amounts that arise from repurchases of an entity's own outstanding common stock. The measurement issues addressed include both of the following:

a. Determining the allocation of amounts paid to the repurchased shares and other elements of the repurchase transaction

b. Further allocation of amounts allocated to repurchased shares to various components of stockholder equity upon formal or constructive retirement.

Allocating Repurchase Price to Other Elements of the Repurchase Transaction

505-30-30-**2** An allocation of repurchase price to other elements of the repurchase transaction may be required if an entity purchases treasury shares at a stated price significantly in excess of the current market price of the shares. An agreement to repurchase shares from a shareholder may also involve the receipt or payment of consideration in exchange for stated or unstated rights or privileges that shall be identified to properly allocate the repurchase price.

505-30-30-**3** For example, the selling shareholder may agree to abandon certain acquisition plans, forego other planned transactions, settle litigation, settle employment contracts, or restrict voluntarily the ability to purchase shares of the entity or its affiliates within a stated time period. If the purchase of treasury shares includes the receipt of stated or unstated rights, privileges, or agreements in addition to the capital stock, only the amount representing the fair value of the treasury shares at the date the major terms of the agreement to purchase the shares are reached shall be accounted for as the cost of the shares acquired. The price paid in excess of the amount accounted for as the cost of treasury shares shall be attributed to the other elements of the transaction and accounted for according to their substance. If the fair value of those other elements of the transaction is more clearly evident, for example, because an entity's shares are not publicly traded, that amount shall be assigned to those elements and the difference recorded as the cost of treasury shares. If no stated or unstated consideration in addition to the capital stock can be identified, the entire purchase price shall be accounted for as the cost of treasury shares.

505-30-30-**4** Transactions do arise, however, in which a reacquisition of an entity's stock may take place at prices different from routine transactions in the open market. For example, to obtain the desired number of shares in a tender offer to all or most shareholders, the offer may need to be at a price in excess of the current market price. In addition, a block of shares representing a controlling interest will generally trade at a price in excess of market, and a large block of shares may trade at a price above or below the current market price depending on whether the buyer or seller initiates the transaction. An entity's reacquisition of its shares in those circumstances is solely a treasury stock transaction properly accounted for at the purchase price of the treasury shares. Therefore, in the absence of the receipt of stated or unstated consideration in addition to the capital stock, the entire purchase price shall be accounted for as the cost of treasury shares.

Allocating the Cost of Treasury Shares to Components of Shareholder Equity Upon Formal or Constructive Retirement

505-30-30-**5** An entity that repurchases its own outstanding common stock may be required under paragraph 505-30-30-3 to allocate a portion of the repurchase price to other elements of the transaction.

505-30-30-**6** Once the cost of the treasury shares is determined under the requirements of this Section, and if a corporation's stock is acquired for purposes other than retirement (formal or constructive), or if ultimate disposition has not yet been decided, paragraph 505-30-45-1 permits the cost of acquired stock to either be shown separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings, or be accorded the following accounting treatment appropriate for retired stock.

505-30-30-**7** The difference between the cost of the treasury shares and the stated value of a corporation's common stock repurchased and retired, or repurchased for constructive retirement, shall be reflected in capital.

505-30-30-**8** When a corporation's stock is retired, or repurchased for constructive retirement (with or without an intention to retire the stock formally in accordance with applicable laws), an excess of repurchase price over par or stated value may be allocated between additional paid-in capital and retained earnings. Alternatively, the excess may be charged entirely to retained earnings in recognition of the fact that a corporation can always capitalize or allocate retained earnings for such purposes. If a portion of the excess is allocated to additional paid-in capital, it shall be limited to the sum of both of the following:

a. All additional paid-in capital arising from previous retirements and net gains on sales of treasury stock of the same issue

b. The pro rata portion of additional paid-in capital, voluntary transfers of retained earnings, capitalization of stock dividends, and so forth, on the same issue. For this purpose, any remaining additional paid-in capital applicable to issues fully retired (formal or constructive) is deemed to be applicable pro rata to shares of common stock.

505-30-30-**9** When a corporation's stock is retired, or repurchased for constructive retirement (with or without an intention to retire the stock formally in accordance with applicable laws), an excess of par or stated value over the cost of treasury shares shall be credited to additional paid-in capital.

505-30-30-**10** Gains on sales of treasury stock not previously accounted for as constructively retired shall be credited to additional paid-in capital; losses may be charged to additional paid-in capital to the extent that previous net gains from sales or retirements of the same class of stock are included therein, otherwise to retained earnings.

505-30-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

505-30-45-**1** If a corporation's stock is acquired for purposes other than retirement (formal or constructive), or if ultimate disposition has not yet been decided, the cost of acquired stock may be shown separately as a deduction from the total of capital stock, additional paid-in capital, and retained earnings, or may be accorded the accounting treatment appropriate for retired stock specified in paragraphs 505-30-30-7 through 30-10.

505-30-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

505-30-50-**1** This Section establishes incremental disclosure requirements that apply to specific circumstances in which an entity repurchases its own outstanding common stock.

Disclosures Relating to State Laws

505-30-50-**2** State laws may effect an entity's repurchase of its own outstanding common stock. If state laws relating to an entity's repurchase of its own outstanding common stock restrict the availability of retained earnings for payment of dividends or have other effects of a significant nature, those facts shall be disclosed.

Disclosures Relating to Allocation of Repurchase Price

505-30-50-**3** A repurchase of shares at a price significantly in excess of the current market price creates a presumption that the repurchase price includes amounts attributable to items other than the shares repurchased. A repurchase of shares at a price significantly in excess of the current market price may require an entity to allocate amounts to other elements of the transaction under the requirements of paragraph 505-30-30-2.

505-30-50-**4** The allocation of amounts paid to the treasury shares and other elements of the transaction requires significant judgment and consideration of many factors that can significantly affect amounts recognized in the financial statements. Disclosure of the allocation of amounts and the accounting treatment for such amounts is necessary to enable the user of the financial statements to understand the nature of significant transactions that may affect, in part, the capital of the entity. The allocation of amounts paid and the accounting treatment for such amounts shall be disclosed.

505-30-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Illustrations

Example 1: Accelerated Share Repurchase Program

505-30-55-**1** This Example illustrates the guidance in paragraph 505-30-25-5 by identifying the two separate transactions, namely a treasury stock purchase and a forward contract, that are present in what is sometimes described as an accelerated share repurchase program.

505-30-55-**2** The treasury stock purchase is as follows.

505-30-55-**3** Investment Banker, an unrelated third party, borrows 1,000,000 shares of Company A common stock from investors, becomes the owner of record of those shares, and sells the shares short to Company A on July 1, 1999, at the fair value of $50 per share. Company A pays $50,000,000 in cash to Investment Banker on July 1, 1999, to settle the purchase transaction. The shares are held in treasury. Company A has legal title to the shares, and no other party has the right to vote those shares.

505-30-55-**4** The forward contract is as follows.

505-30-55-**5** Company A simultaneously enters into a forward contract with Investment Banker on 1,000,000 shares of its own common stock. On the October 1, 1999, settlement date, if the volume-weighted average daily market price of Company A's common stock during the contract period (July 1, 1999, to October 1, 1999) exceeds the $50 initial purchase price (net of a commission fee to Investment Banker), Company A will deliver to Investment Banker cash or shares of common stock (at Company A's option) equal to the price difference multiplied by 1,000,000. If the volume-weighted average daily market price of Company A's common stock during the contract period is less than the $50 initial purchase price (net of a commission fee to Investment Banker), Investment Banker will deliver to Company A cash equal to the price difference multiplied by 1,000,000.

505-30-55-**6** Under the guidance in paragraph 505-30-25-5,an entity would account for this accelerated share repurchase program as two separate transactions:

a. As shares of common stock acquired in a treasury stock transaction recorded on the July 1, 1999, acquisition date
b. As a forward contract indexed to its own common stock.

505-30-55-**7** See Example 13 (paragraph 260-10-55-88) for the effect on earnings per share (EPS) for this Example.

505-30-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Income Statement

505-30-60-**1** For the income statement classification requirements applicable to the costs incurred by an entity to defend itself from a takeover attempt or the cost attributed to a standstill agreement, see Subtopic 220-20.

Earnings Per Share

505-30-60-**2** For the determination of the effect of a treasury stock transaction and the effect of a forward contract that may be settled in stock or cash on the computation of earnings per share (EPS), see Topic 260.

505-**50 - Equity-Based Payments to Non-Employees**

505-50-**00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

505-50-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Contract	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
Contract	Added	Accounting Standards Update No. 2014-09	05/28/2014
Counterparty Performance Conditions	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
Customer (1st def.)	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
Customer	Added	Accounting Standards Update No. 2014-09	05/28/2014
Employee (2nd def.)	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
Fair Value (1st def.)	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
Issued, Issuance, or Issuing of an Equity Instrument	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
Issued, Issuance, or Issuing of an Equity Instrument	Added	Accounting Standards Update No.	12/14/2016

		2016-19	
Market Condition	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
Market Condition	Added	Accounting Standards Update No. 2014-06	03/14/2014
Market Conditions	Superseded	Accounting Standards Update No. 2014-06	03/14/2014
Reload Feature and Reload Option	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
Share-Based Payment Transactions	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
Terms of a Share-Based Payment Award	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-05-1 through 05-9	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-05-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-50-05-2	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-05-2A	Added	Accounting Standards Update No. 2014-09	05/28/2014
505-50-05-3	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-05-4	Amended	Accounting Standards Update No. 2014-06	03/14/2014
505-50-05-5	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-10-1	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-15-1 through 15-3	Superseded	Accounting Standards	06/20/2018

		Update No. 2018-07	
505-50-15-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-50-15-2	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-50-25-1 through 25-4	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-25-6 through 25-10	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-25-2	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-50-25-5	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
505-50-30-1 through 30-7	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-30-1	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-30-2	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-50-30-3	Amended	Accounting Standards Update No. 2014-06	03/14/2014
505-50-30-8	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
505-50-30-9 through 30-17	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-30-9	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-30-10	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-30-18	Superseded	Accounting	05/28/2014

		Standards Update No. 2014-09	
505-50-30-19	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
505-50-30-20 through 30-28	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-30-22	Amended	Accounting Standards Update No. 2014-06	03/14/2014
505-50-30-29	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
505-50-30-30	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-30-31	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-35-1 through 35-12	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-35-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-50-35-1	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-35-3	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-35-4	Amended	Accounting Standards Update No. 2014-06	03/14/2014
505-50-35-13 through 35-16	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
505-50-35-15	Amended	Accounting Standards Update No. 2012-04	10/01/2012
505-50-45-1	Superseded	Accounting Standards Update No. 2018-07	06/20/2018

505-50-45-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-50-50-1	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-50-2	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
505-50-55-1 through 55-24	Superseded	Accounting Standards Update No. 2018-07	06/20/2018
505-50-55-2	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-50-55-11	Amended	Accounting Standards Update No. 2014-06	03/14/2014
505-50-55-17	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-55-18	Amended	Accounting Standards Update No. 2014-09	05/28/2014
505-50-55-25 through 55-27	Superseded	Accounting Standards Update No. 2014-09	05/28/2014
505-50-55-28 through 55-40	Superseded	Accounting Standards Update No. 2018-07	06/20/2018

505-50-**05 - Overview and Background**

> **General Note:** The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

505-50-05-**1** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-05-**2** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-05-**2A** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-05-**3** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-05-**4** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-05-**5** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-05-**6** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-05-**7** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-05-**8** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-05-**9** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-**10 - Objectives**

> **General Note:** The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

505-50-10-**1** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-**15 - Scope and Scope Exceptions**

> **General Note:** The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

505-50-15-**1** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-15-**2** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-15-**3** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Issued, Issuance, or Issuing of an Equity Instrument

An equity instrument is issued when the issuing entity receives the agreed-upon consideration, which may be cash, an enforceable right to receive cash, or another financial instrument, goods, or services. An entity may conditionally transfer an equity instrument to another party under an arrangement that permits that party to choose at a later date or for a specified time whether to deliver the consideration or to forfeit the right to the conditionally transferred instrument with no further obligation. In that situation, the equity instrument is not issued until the issuing entity has received the consideration. The grant of stock options or other equity instruments subject to vesting conditions is not considered to be issuance.

Market Condition

A condition affecting the exercise price, exercisability, or other pertinent factors used in determining the fair value of an award under a share-based payment arrangement that relates to the achievement of either of the following:

a. A specified price of the issuer's shares or a specified amount of intrinsic value indexed solely to the issuer's shares

b. A specified price of the issuer's shares in terms of a similar (or index of similar) equity security (securities). The term similar as used in this definition refers to an equity security of another entity that has the same type of residual rights. For example, common stock of one entity generally would be similar to the common stock of another entity for this purpose.

505-50-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

505-50-25-**1** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-25-**2** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-25-**3** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-25-**4** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-25-**5** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-25-**6** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-25-**7** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-25-**8** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-25-**9** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-25-**10** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-**30 - Initial Measurement**

> **General Note:** The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

505-50-30-**1** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**2** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**3** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**4** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**5** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**6** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**7** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**8** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-30-**9** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**10** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**11** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**12** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**13** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**14** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**15** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**16** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**17** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**18** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-30-**19** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-30-**20** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**21** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**22** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**23** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**24** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**25** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**26** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**27** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**28** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**29** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-30-**30** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-30-**31** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-**35 - Subsequent Measurement**

> **General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, credit losses, fair value adjustments, depreciation and amortization, and so forth.

General

505-50-35-**1** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**2** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**3** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**4** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**5** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**6** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**7** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**8** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**9** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**10** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**11** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**12** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-35-**13** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-35-**14** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-35-**15** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-35-**16** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

505-50-45-**1** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-**50 - Disclosure**

> **General Note:** The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

505-50-50-**1** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-50-**2** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

505-50-55-**1** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**2** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**3** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**4** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**5** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**6** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**7** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**8** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**9** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**10** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**11** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**12** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**13** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**14** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**15** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**16** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**17** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**18** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**19** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**20** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**21** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**22** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**23** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**24** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**25** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-55-**26** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-55-**27** Paragraph superseded by Accounting Standards Update No. 2014-09.

505-50-55-**28** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**29** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**30** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**31** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**32** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**33** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**34** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**35** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**36** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**37** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**38** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**39** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-55-**40** Paragraph superseded by Accounting Standards Update No. 2018-07.

505-50-**S00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

505-50-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
505-50-S25-1 through S25-3	Superseded	Accounting Standards Update No. 2023-03	07/14/2023
505-50-S25-2	Added	Accounting Standards Update No. 2009-09	09/17/2009
505-50-S25-3	Added	Accounting Standards Update No. 2010-05	01/15/2010
505-50-S99-1	Superseded	Accounting Standards Update No. 2023-03	07/14/2023
505-50-S99-1	Amended	Accounting Standards Update No. 2010-04	01/15/2010
505-50-S99-2	Superseded	Accounting Standards Update No. 2023-03	07/14/2023
505-50-S99-2	Added	Accounting Standards Update No. 2009-09	09/17/2009

505-50-**S25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

505-50-S25-**1** Paragraph superseded by Accounting Standards Update No. 2023-03.

505-50-S25-**2** Paragraph superseded by Accounting Standards Update No. 2023-03.

505-50-S25-**3** Paragraph superseded by Accounting Standards Update No. 2023-03.

505-50-**S99 - SEC Materials**

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

505-50-S99-**1** Paragraph superseded by Accounting Standards Update No. 2023-03.

505-50-S99-**2** Paragraph superseded by Accounting Standards Update No. 2023-03.

505-**60 - Spinoffs and Reverse Spinoffs**

505-60-**00 - Status**

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

505-60-00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Business	Amended	Accounting Standards Update No. 2017-01	01/05/2017
505-60-15-1	Amended	Accounting Standards Update No. 2016-19	12/14/2016
505-60-45-1	Amended	Accounting Standards Update No. 2014-08	04/10/2014

505-60-**05 - Overview and Background**

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

505-60-05-**1** This Subtopic provides guidance related to the distribution of nonmonetary assets that constitute a business to owners of an entity in transactions commonly referred to as spinoffs. This Subtopic also addresses spinoff transactions in which the substance of the transaction may differ from the legal form, and provides guidance on how to determine such situations and their required accounting and reporting.

505-60-05-**2** An entity may desire to reorganize its operations in response to its business needs. For example, an entity (the spinnor) may transfer assets into a new legal spun-off entity (the spinnee) and distribute the shares of the spinnee to its shareholders, without the surrender by the shareholders of any stock of the spinnor. Such a transaction is commonly referred to as a spinoff. An illustration of a spinoff is presented in Example 1 (see paragraph 505-60-55-1).

505-60-05-**3** A spinoff allows an entity to be reorganized in a manner that allows it to meet the needs of its owners. However, there may be other benefits as well. If the spinoff qualifies as a nontaxable reorganization, the distribution results in no taxable gain being recognized by either the spinnor or its shareholders. Additionally, if the spinnee is subsequently sold by the shareholders, the double taxation that would have occurred if an entity sold its subsidiary directly and distributed the proceeds to its shareholders is avoided.

505-60-05-**4** In certain cases, the spinoff of a subsidiary to its shareholders is such that the legal form of the transaction does not match its substance. That is, in certain circumstances, the spinnee will be the continuing entity and the transaction will commonly be referred to as a reverse spinoff. An entity needs to determine whether to account for a spinoff as a reverse spinoff based on the substance instead of the legal form of the transaction. An illustration of a reverse spinoff is presented in Example 2 (see paragraph 505-60-55-4).

505-60-**15 - Scope and Scope Exceptions**

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General

Entities

505-60-15-**1** The guidance in this Subtopic applies to all entities, unless more specific guidance is provided in other Topics.

Transactions

505-60-15-**2** The guidance in this Subtopic applies to all transactions involving the distribution of nonmonetary assets that constitute a business to owners of an entity.

505-60-15-**3** The guidance in this Subtopic does not apply to distributions of nonmonetary assets that do not constitute a business.

505-60-**20 - Glossary**

> **General Note:** The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Business

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

Reverse Spinoff

A spinoff of a subsidiary to an entity's shareholders in which the legal form of the transaction does not match its substance such that the new legal spun-off entity (the spinnee) will be the continuing entity.

Spinoff

The transfer of assets that constitute a business by an entity (the spinnor) into a new legal spun-off entity (the spinnee), followed by a distribution of the shares of the spinnee to its shareholders, without the surrender by the shareholders of any stock of the spinnor.

505-60-**25 - Recognition**

> **General Note:** The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

505-60-25-**1** This Section identifies the required accounting for a spinoff transaction. It also provides guidance on when a spinoff shall be treated as a reverse spinoff and the accounting required by that determination.

Required Accounting for Spinoffs, Including Reverse Spinoffs

505-60-25-**2** Paragraph 845-10-30-10 requires that the accounting for the distribution of nonmonetary assets to owners of an entity in a spinoff be based on the recorded amount (after reduction, if appropriate, for an indicated impairment of value). As specified in Section 505-60-15, a further requirement of the nonmonetary assets being distributed is that they constitute a business. Accordingly, an entity's distribution of the shares of a wholly owned or consolidated subsidiary to its shareholders shall be recorded based on the carrying value of the subsidiary. Regardless of whether the spun-off operations will be sold immediately after the spinoff, the transaction shall not be accounted for as a sale of the accounting spinnee followed by a distribution of the proceeds.

505-60-25-**3** See Example 1 (paragraph 505-60-55-1) for an illustration of a spinoff transaction.

505-60-25-**4** In a reverse spinoff, the legal spinnee shall be treated as though it were the spinnor for accounting purposes (accounting spinnor). This is referred to as reverse spinoff accounting.

505-60-25-**5** Accounting for a reverse spinoff transaction based on its legal form would present the legal spinnor as the accounting spinnor and the legal spinnee as the accounting spinnee. However, in substance, the legal spinnor has disposed of its own operations and continued the operations of the legal spinnee. The legal form of the spinoff may have been driven primarily by tax planning strategies. Accounting for the transaction based on its substance depicts the legal spinnee as the accounting spinnor and the legal spinnor as the accounting spinnee.

505-60-25-**6** See Example 2 (paragraph 505-60-55-4) for an illustration of a reverse spinoff transaction.

505-60-25-**7** Reverse spinoff accounting is appropriate if treatment of the legal spinnee as the accounting spinnor results in the most accurate depiction of the substance of the transaction for shareholders and other users of the financial statements. The determination of whether reverse spinoff accounting is appropriate is a matter of judgment that depends on an evaluation of all relevant facts and circumstances. The following paragraph provides guidance on making the required determination.

Determining the Accounting Spinnor and Spinnee

505-60-25-**8** In order to determine the required accounting and reporting in a spinoff transaction, an entity needs to determine which party is the accounting spinnor and which is the accounting spinnee. In determining whether reverse spinoff accounting is appropriate, a presumption shall exist that a spinoff be accounted for based on its legal form, in other words, that the legal spinnor is also the accounting spinnor. However, that presumption may be overcome. An evaluation of the following indicators shall be considered in that regard. Nevertheless, no one indicator shall be considered presumptive or determinative. The following are indicators that a spinoff should be accounted for as a reverse spinoff:

a. The size of the legal spinnor and the legal spinnee. All other factors being equal, in a reverse spinoff, the accounting spinnor (legal spinnee) is larger than the accounting spinnee (legal spinnor). The determination of which entity is larger is based on a comparison of the assets, revenues, and earnings of the two entities. There are no established bright lines that shall be used to determine which entity is the larger of the two.

b. The fair value of the legal spinnor and the legal spinnee. All other factors being equal, in a reverse spinoff, the fair value of the accounting spinnor (legal spinnee) is greater than that of the accounting spinnee (legal spinnor).

c. Senior management. All other factors being equal, in a reverse spinoff, the accounting spinnor (legal spinnee) retains the senior management of the formerly combined entity. Senior management generally consists of the chairman of the board, chief executive officer, chief operating officer, chief financial officer, and those divisional heads reporting directly to them, or the executive committee if one exists.

d. Length of time to be held. All other factors being equal, in a reverse spinoff, the accounting spinnor (legal spinnee) is held for a longer period than the accounting spinnee (legal spinnor). A proposed or approved plan of sale for one of the separate entities concurrent with the spinoff may identify that entity as the accounting spinnee.

See Examples 3 and 4 (paragraphs 505-60-55-7 through 55-12) for illustrations of the determination of the accounting spinnor and spinnee.

505-60-**45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

505-60-45-**1** The determination of the accounting spinnor and spinnee under the requirements of paragraph 505-60-25-8 may have significant implications with regard to the reporting of discontinued operations in accordance with Subtopic 205-20. That is, the accounting spinnee shall be reported as a discontinued operation by the accounting spinnor if the spinnee is a discontinued operation and meets the conditions for such reporting contained in paragraphs 205-20-45-1A through 45-1C.

505-60-**55 - Implementation Guidance and Illustrations**

> **General Note:** The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

Illustrations

Example 1: Spinoff

505-60-55-**1** This Example presents an illustration of a spinoff.

505-60-55-**2** Big Company owns and operates a mall and a retail store that occupies the anchor store position in that mall. The mall and the store are managed by two separate divisions. The shareholders of Big Company would like to split Big Company into two entities so that each can focus on its own operations. To achieve this, Big Company transfers the mall's assets and operations into a newly created subsidiary, Mall Company, and distributes the shares of Mall Company to its shareholders on a pro rata basis in a spinoff.

505-60-55-**3** Paragraph 505-60-25-2 provides guidance on the accounting for a spinoff.

Example 2: Reverse Spinoff

505-60-55-**4** This Example presents an illustration of a reverse spinoff.

505-60-55-**5** Snack Food Company owns two subsidiaries-Ice Cream Subsidiary and Snack Subsidiary. Ice Cream Subsidiary is significantly larger and more profitable than Snack Subsidiary. The shareholders of Snack Food Company would like to continue the ice cream operations and dispose of the snack food operations. To facilitate this, Snack Food Company distributes the shares of Ice Cream Subsidiary to the shareholders thereby creating Ice Cream Company. The shareholders are then able to dispose of the operations of Snack Food Company (now solely comprising Snack Subsidiary operations) by selling the shares directly to a third party and, at the same time, retain ownership of the Ice Cream Company.

505-60-55-**6** Paragraphs 505-60-25-4 through 25-7 provide guidance on the accounting for a reverse spinoff.

Example 3: Legal Form of Spinoff Same As Transaction Substance

505-60-55-**7** This Example demonstrates the application of the requirements in paragraph 505-60-25-8 to identify the accounting spinnor and spinnee, which may differ from the legal spinnor and spinnee. This Example has the following assumptions:

a. Retail Company, a retail store chain, has a wholly owned restaurant subsidiary. The retail and restaurant operations are operated independently with a small executive management team overseeing both. Because the two have unrelated operations, the shareholders believe that the two operations should be separated by way of a spinoff. They believe that this will allow those separate entities to pursue opportunities in their respective industries and maximize their individual value.

b. In order to accomplish the spinoff, Retail Company creates a new legal entity, Restaurant Company, into which the assets and operations of the restaurant subsidiary are transferred. The shares of Restaurant Company are then distributed to the shareholders of Retail Company on a pro rata basis.

c. The executive management team of Retail Company will be divided between the two entities. A comparison of the two entities is as follows.

(in 000s)

	Assets	Revenues	Net Income	Fair Value
Retail	$ 500	$ 410	$ 150	$ 675
Restaurant	$ 100	$ 75	$ 21	$ 170

505-60-55-**8** Based on an analysis of the indicators contained in paragraph 505-60-25-8, the spinoff should be accounted for in accordance with its legal form. That is, the transaction should not be accounted for as a reverse spinoff. Retail Company should be designated as the accounting spinnor based on the first two of the following indicators:

a. Retail Company has substantially larger operations than Restaurant Company.

b. The fair value of Retail Company is greater than Restaurant Company.

c. The management team is allocated between the two operations.

d. There are no planned or likely disposals of either Retail Company or Restaurant Company.

505-60-55-**9** The designation of Retail Company as the accounting spinnor will provide the most accurate depiction of the transaction to shareholders and other users of the financial statements because, in substance, Retail Company has spun off its Restaurant Company into a separate entity.

Example 4: Legal Form of Spinoff Differs from Transaction Substance

505-60-55-**10** This Example demonstrates the application of the requirements in paragraph 505-60-25-8 to identify the accounting spinnor and spinnee, which may differ from the legal spinnor and spinnee. This Example has the following assumptions:

a. Retail Company, a retail store chain, has a wholly owned restaurant subsidiary. The retail and restaurant operations are operated independently, with a small executive management team overseeing both. While the restaurant subsidiary has grown rapidly, the retail operations have deteriorated steadily due to increased competition. The shareholders believe that the two operations should be separated by way of a spinoff. Management intends to dispose of the retail operations.

b. In order to accomplish the spinoff, Retail Company creates a new legal entity, Restaurant Company, into which the assets and operations of the restaurant subsidiary are transferred. The shares of Restaurant Company are then distributed to the shareholders of Retail Company on a pro rata basis.

c. The executive management team of the combined entity will be assigned primarily to Restaurant Company, as the intent is to dispose of Retail Company (now solely comprising the retail operations). A comparison of certain statistics of the two entities is as follows.

(in 000s)

	Assets	Revenues	Net Income	Fair Value
Retail	$ 300	$ 210	$ 35	$ 375
Restaurant	$ 600	$ 450	$ 150	$ 700

505-60-55-**11** Based on an analysis of the indicators contained in paragraph 505-60-25-8, the spinoff should be accounted for as a reverse spinoff. Restaurant Company, although the legal spinnee, should be designated as the accounting spinnor based on the following:

a. Restaurant Company has substantially larger operations than Retail Company.

b. The fair value of Restaurant Company is greater than that of Retail Company.

c. The management team is primarily assigned to Restaurant Company.

d. Management intends to dispose of Retail Company upon finalizing the spinoff.

505-60-55-**12** The designation of Restaurant Company as the accounting spinnor will provide the most accurate depiction of the transaction to shareholders and other users of the financial statements, as, in substance, Retail Company has disposed of its retail operations and continued its restaurant operations.

505-60-**60 - Relationships**

> **General Note:** The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

Compensation-Stock Compensation

505-60-60-**1** For compensation-related consequences of exchanges of share options or other equity instruments or changes to their terms in conjunction with an equity restructuring, see Topic 718.

505-60-**S00 - Status**

> **General Note:** The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

505-60-S00-**1** The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
505-60-S99-1	Amended	Accounting Standards Update No. 2012-03	08/27/2012

505-60-**S45 - Other Presentation Matters**

> **General Note:** The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

Accounting for the Spinoff of a Subsidiary

505-60-S45-**1** See paragraph 505-60-S99-1, SAB Topic 5.Z.7, for SEC Staff views on whether a spinoff transaction can be reflected as a change in the reporting entity.

505-60-**S99 - SEC Materials**

> **General Note:** As more fully described in About the Codification, the Codification includes selected SEC and SEC Staff content for reference by public companies. The Codification does not replace or affect how the SEC or SEC

Staff issues or updates SEC content. SEC Staff content does not constitute Commission-approved rules or interpretations of the SEC.

General

SEC Staff Guidance

Staff Accounting Bulletins

SAB Topic 5.Z.7, Accounting for the Spin-off of a Subsidiary

505-60-S99-**1** The following is the text of SAB Topic 5.Z.7, Accounting for the Spin-off of a Subsidiary.

Facts: A Company disposes of a business through the distribution of a subsidiary's stock to the Company's shareholders on a pro rata basis in a transaction that is referred to as a spin-off.

Question: May the Company elect to characterize the spin-off transaction as resulting in a change in the reporting entity and restate its historical financial statements as if the Company never had an investment in the subsidiary, in the manner specified by FASB ASC Topic 250, Accounting Changes and Error Corrections?

Interpretive Response: Not ordinarily. If the Company was required to file periodic reports under the Exchange Act within one year prior to the spin-off, the staff believes the Company should reflect the disposition in conformity with FASB ASC Topic 360. This presentation most fairly and completely depicts for investors the effects of the previous and current organization of the Company. However, in limited circumstances involving the initial registration of a company under the Exchange Act or Securities Act, the staff has not objected to financial statements that retroactively reflect the reorganization of the business as a change in the reporting entity if the spin-off transaction occurs prior to effectiveness of the registration statement. This presentation may be acceptable in an initial registration if the Company and the subsidiary are in dissimilar businesses, have been managed and financed historically as if they were autonomous, have no more than incidental common facilities and costs, will be operated and financed autonomously after the spin-off, and will not have material financial commitments, guarantees, or contingent liabilities to each other after the spin-off. This exception to the prohibition against retroactive omission of the subsidiary is intended for companies that have not distributed widely financial statements that include the spun-off subsidiary. Also, dissimilarity contemplates substantially greater differences in the nature of the businesses than those that would ordinarily distinguish reportable segments as defined by FASB ASC paragraph 280-10-50-10 (Segment Reporting Topic).