

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2010-01
January 2010

Equity (Topic 505)

Accounting for Distributions to
Shareholders with Components of Stock and Cash
a consensus of the FASB Emerging Issues Task Force

An Amendment of the *FASB Accounting Standards Codification*™

Financial Accounting Standards Board
of the Financial Accounting Foundation

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CONTENTS

	Page Numbers
Summary.....	1–2
Amendments to the <i>FASB Accounting Standards Codification</i> ™	3–6
Amendments to XBRL Taxonomy	7

Summary

Why Is the FASB Issuing This EITF-Developed Accounting Standards Update (Update)?

The objective of this Update is to address diversity in practice related to the accounting for a distribution to shareholders that offers them the ability to elect to receive their entire distribution in cash or shares of equivalent value with a potential limitation on the total amount of cash that shareholders can elect to receive in the aggregate. Historically, some entities have accounted for the stock portion of the distribution as a new share issuance that is reflected in earning per share (EPS) prospectively. Other entities have accounted for the stock portion of the distribution as a stock dividend by retroactively restating shares outstanding and EPS for all periods presented. The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or shares with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance thus eliminating the diversity in practice.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect entities that declare dividends to shareholders that may be paid in cash or shares at the election of the shareholders with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate. Such a scenario is common for real estate investment trusts, but the amendments in this Update apply to other kinds of entities as well.

What Are the Main Provisions?

The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). Those distributions should be accounted for and included in EPS calculations in accordance with paragraphs 480-10-25-14 and 260-10-45-45 through 45-47 of the *FASB Accounting Standards Codification*TM.

The amendments in this Update also provide a technical correction to the Accounting Standards Codification. The correction moves guidance that was

previously included in the Overview and Background Section to the definition of a stock dividend in the Master Glossary. That guidance indicates that a stock dividend takes nothing from the property of the corporation and adds nothing to the interests of the stockholders. It also indicates that the proportional interest of each shareholder remains the same, and is a key factor to consider in determining whether a distribution is a stock dividend.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260. This guidance will improve current U.S. GAAP because it will eliminate diversity in practice.

When Will the Amendments Be Effective?

The amendments in this Update are effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

The amendments in this Update may result in differences in accounting and reporting between U.S. GAAP and IFRS. IFRS guidance for reflecting stock dividends in EPS is similar to that of U.S. GAAP. However, IFRS does not provide specific guidance for distributions to shareholders that give them the ability to elect to receive cash or stock with a limit on the total amount of cash that will be distributed.

Amendments to the *FASB Accounting Standards Codification*TM

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–9. In some cases, not only are the amended paragraphs shown but also the preceding and following paragraphs are shown to put the change in context. Terms from the Master Glossary are in **bold** type. Added text is underlined and deleted text is ~~struck out~~.

Amendments to Subtopic 505-20

2. Supersede paragraph 505-20-05-3, with a link to transition paragraph 505-20-65-1, as follows:

Equity—Stock Dividends and Stock Splits

Overview and Background

505-20-05-3 Paragraph superseded by Accounting Standards Update 2010-01. ~~However, a **stock dividend** really 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. The only change is in the evidence that represents that interest; the new shares and the original shares together representing the same proportional interests that the original shares represented before the issue of the new ones.~~

3. Amend paragraph 505-20-05-4, with a link to transition paragraph 505-20-65-1, as follows:

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

4. Amend paragraph 505-20-15-2, with a link to transition paragraph 505-20-65-1, as follows:

Scope and Scope Exceptions

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

5. Add paragraph 505-20-15-3A, with a link to transition paragraph 505-20-65-1, as follows:

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.

6. Amend Master Glossary term *Stock Dividend*, with a link to transition paragraph 505-20-65-1, as follows:

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.

7. Amend paragraph 260-10-55-12, with no link to a transition paragraph, as follows:

260-10-55-12 If the number of common shares outstanding increases as a result of a {Add GLOSSARY LINK}stock dividend{GLOSSARY LINK} or stock split (see Subtopic 505-20) or decreases as a result of a reverse stock split, the computations of basic and diluted EPS shall be adjusted retroactively for all periods presented to reflect that change in capital structure. If changes in common stock resulting from stock dividends, stock splits, or reverse stock splits occur after the close of the period but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), the per-share computations for those and any prior-period financial statements presented shall be based on the new number of shares. If per-share computations reflect such changes in the number of shares, that fact shall be disclosed.

8. Add paragraph 505-20-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash*

505-20-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash*:

- a. The pending content that links to this paragraph shall be effective for the first reporting period, including interim periods, ending after December 15, 2009.
- b. The pending content that links to this paragraph requires retrospective application for all periods presented.
- c. The disclosures in paragraphs 250-10-50-1 through 50-3 shall be provided in the period an entity adopts the pending content that links to this paragraph.

9. Add paragraph 505-20-00-1 as follows:

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

Paragraph Number	Action	Accounting Standards Update	Date
Stock Dividend	Amended	2010-01	01/05/2010
505-20-05-3	Superseded	2010-01	01/05/2010
505-20-05-4	Amended	2010-01	01/05/2010
505-20-15-2	Amended	2010-01	01/05/2010
505-20-15-3A	Added	2010-01	01/05/2010
505-20-65-1	Added	2010-01	01/05/2010

The amendments in this Update were adopted by the unanimous vote of the five members of the Financial Accounting Standards Board:

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

Amendments to the XBRL Taxonomy

There are no proposed amendments to the XBRL taxonomy as a result of the amendments in this Update.