In accounting and reporting for transactions that represent business combinations accounted for using the acquisition method, FASB Accounting Standards Codification (FASB ASC) 805, Business Combinations, applies.

However, this guidance for business combinations does not apply to combinations between entities or businesses under common control, according to FASB ASC 805-10-15-4(c). Particular guidance associated with common control transactions is included separately within the business combinations guidance at FASB ASC 805-50.

Some transfers of net assets or exchanges of shares between entities under common control result in a change in the reporting entity. In practice, the method that many entities have used to account for those transactions is similar to the pooling-of-interests method.

The "Transactions Between Entities Under Common Control" subsections of ASC 805-50 provide guidance on preparing financial statements and related disclosures for the entity that receives the net assets.

The Common Control Concept

FASB ASC 805 does not include a definition of the term "common control" that can be used in determining whether transactions are between commonly controlled entities. With that said, FASB ASC 805-50-15-6 does provide the following examples of the types of transactions that qualify as common control transactions:

- An entity charters a newly formed entity and then transfers some or all of its net assets to that newly chartered entity.
- A parent transfers the net assets of a wholly owned subsidiary into the parent and liquidates the subsidiary. That transaction is a change in legal organization but not a change in the reporting entity.
- A parent transfers its controlling interest in several partially owned subsidiaries into a new wholly owned subsidiary. That transaction also is a change in legal organization but not a change in the reporting entity.
• A parent exchanges its ownership interests or the net assets of a wholly owned subsidiary for additional shares issued by the less-than-wholly owned subsidiary of the parent, thereby increasing the percentage of ownership of the parent in the less-than-wholly owned subsidiary but leaving all of the existing noncontrolling interests outstanding.

• A less-than-wholly owned subsidiary of the parent issues its shares in exchange for shares of another subsidiary previously owned by the same parent, and the noncontrolling shareholders are not party to the exchange. This type of transaction is not a business combination from the perspective of the parent.

• A limited liability company is formed by combining entities under common control.

• Two or more not-for-profit entities that are effectively controlled by the same board members transfer their net assets to a new entity, dissolve the former entities and appoint the same board members to the newly combined entity.

**Transactions Between Commonly Controlled Entities**

When accounting for transfers of assets or exchanges of shares between entities under common control, using the provisions of FASB ASC 805-50-30, the entity that receives the net assets or equity interests is required to measure the recognized assets and liabilities transferred at their carry amounts in the accounts of the transferring entity at the date of the transfer.

When carrying amounts of the assets and liabilities transferred differ from the historical cost of the parent of the entity under common control (e.g., because push-down accounting had not been applied), the financial statements of the receiving entity need to reflect the transferred assets and liabilities at the historical cost of the parent of the entities under common control.

(When applied, "push-down accounting" establishes a new basis for the assets and liabilities of an acquired company by pushing down the acquirer's accounting and reporting basis to the acquiree's separate financial statements.)

In certain situations, the entity receiving the net assets or equity interests and the entity transferring the net assets or equity interests may account for similar assets and liabilities using different accounting methods. In these circumstances, the carrying amounts of the assets and liabilities transferred may be adjusted to the basis of accounting used by the receiving entity if the change would be preferable.
These types of changes in accounting methods are required to be applied retrospectively, and financial statements presented for prior periods need to be adjusted, unless it is impracticable to use this approach.

**Disclosure Requirements**

When transactions occur between entities that are commonly controlled, notes to the financial statements of the receiving entity are required to include disclosure of the following for the period in which the transfer of assets and liabilities or exchange of equity interests occurred:

- The name and brief description of the entity included in the reporting entity as a result of the net asset transfer or exchange of equity interests
- The method of accounting for the transfer of net assets or exchange of equity interests

These disclosures would be in addition to generally applicable disclosures that would be included in financial statements addressing a variety of matters to ensure that note disclosures are transparent.

As an example, it would be the usual circumstance that related-party transactions disclosures also would need to be included in the financial statement notes. Those disclosures are spelled out in FASB ASC 850, *Related Party Disclosures*. – Bob Durak, CPA, CGMA, Director of AICPA Center for Plain English Accounting