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STRENGTH MATTERS® Financial Statement Disclosures
Sample #10: Special Transactions

The tenth paper generated from the **STRENGTH MATTERS® Sample Disclosure Project*** Lindquist, von Husen & Joyce LLP (LvHJ) led in 2016 provides a suggested format for the disclosure of an organization's **special transactions**.

Special transactions do not occur routinely, but occasionally appear on a real estate developer's consolidated financial statements and can be large enough to raise questions from financial statement readers. Transactions of this type include:

- Acquiring control of an entity that primarily holds real estate,
- Deconsolidation of an entity when control is reduced, and
- Transfers of property between commonly-controlled entities.

The paper includes example footnote disclosures for each of these special transactions.

Here are some of the additional insights and suggestions included in the paper:

- **How best to record acquiring an entity:** Although some organizations have followed the business combination guidance when control over an existing real estate property is obtained, in January 2017, FASB issued guidance clarifying that a transaction involving a single identifiable asset (such as real estate) should be treated as the purchase of an asset rather than a business combination (Accounting Standards Update No. 2017-01).

  — Mainly the difference between a business combination and a real estate acquisition is that transaction costs are capitalized in a real estate acquisition whereas goodwill can be created by a business combination.

- **Disclosure of the details of real property acquired:** It is helpful to provide details, although not required, and could consist of a summary of each type of fixed asset acquired along with the amount of debt assumed and cash paid.

- **The impact of entity deconsolidation:** Deconsolidation of an entity occasionally occurs, for example when an unrelated co-general partner is given equal control with the related general partner, or when residents are required to occupy a majority of the board of director positions. The sample disclosure presents the impact of deconsolidation in a table that reflects the pre- and post-deconsolidation balances of the related entity. This table clearly displays the impact of deconsolidating an entity versus using the equity method to report the entity.

- **The impact of property transfer on supplemental schedules:** Although transfers of property between consolidated affiliates (such as after a year-15 buyout occurs) have no impact on the consolidated financial statements, there is an impact on the supplemental schedules when each entity is presented in separate columns. The net effect of such transfers can have a material impact on individual entities since the net equity transferred between affiliates can be quite large. The sample disclosure summarizes such a transaction.

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*Click **here** to download a copy of Special Transactions best practice paper on the Strength Matters website. Subscription is required.*

Visit **our website to read previous issues of LvHJ Insights featuring Strength Matters best practice papers.*

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