

## Section 6910, *Investment Companies*



### **.40 Applying the Financial Statement Reporting Requirements in FASB ASC 946-205-45-1 When an Investment Company<sup>1</sup> Presents a Stub Period**

*Inquiry*— How should an investment company apply the financial statement presentation requirements in FASB ASC 946-205-45-1 when the investment company presents a stub period (the period of time from the most recent balance sheet date to the date liquidation becomes imminent) together with the liquidation basis financial statements?

*Reply*—When an investment company presents stub period going concern basis financial statements together with its liquidation basis financial statements, the stub period financial statements under the going concern basis of accounting would generally be consistent with FASB ASC 946-205-45-1, including (1) a statement of operations, (2) a statement of changes in partners’ capital (or members’ capital or net assets, as applicable), (3) a statement of cash flows (when required), and (4) financial highlights, as well as required disclosures. When an investment company presents a stub period, the investment company may include a cumulative-effect adjustment in the statement of changes in net assets in liquidation. This adjustment would bridge the investment company’s ending equity balance under the going concern basis of accounting, with its opening equity balance under the liquidation basis of accounting. An investment company may, instead, disclose the cumulative-effect adjustment in the notes to the liquidation basis financial statements. If a stub period is not presented, the cumulative-effect adjustment generally would be disclosed in the notes to the financial statements.

The cumulative-effect adjustment includes the adjustment necessary to record assets and liabilities at their liquidation basis carrying amounts, including the accrual of income and expenses through liquidation. The initial statement of changes in net assets in liquidation presents only changes in net assets that occurred during the period since liquidation became imminent. The entity should consider appropriate disclosures about the cumulative-effect adjustment.

Regardless of whether a stub period is presented, the investment company should provide in its liquidation basis financial statement disclosures required by paragraphs 1–2 of FASB ASC 205-30-50, including, among others

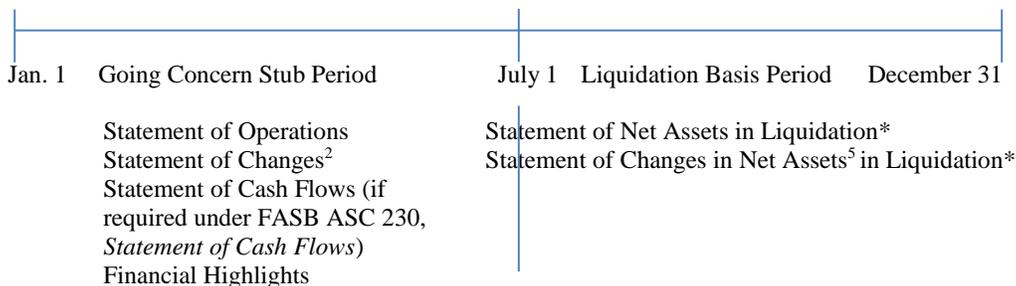
1. the methods and significant assumptions used to measure assets and liabilities,
2. any subsequent changes to those methods and assumptions,
3. the type and amount of costs and income accrued in the statement of net assets in liquidation, and
4. the period over which those costs are expected to be paid or income earned.

<sup>1</sup> See footnote 1.

FASB ASC 205-30-50-1 indicates an entity would make disclosures required by other GAAP topics that are relevant to understanding the entity’s statement of net assets in liquidation and statement of changes in net assets in liquidation. For example, because a schedule of investments is part of the statement of net assets of an investment company, a reporting entity generally would include a schedule of investments with the statement of net assets in liquidation to the extent the investment company holds investments at the reporting date.

An investment company would not be required by FASB ASC 205-30 to present a statement of assets and liabilities (or similar statement) and a (condensed) schedule of investments as of the last day under the going concern basis (the day prior to the date liquidation became imminent). However, the investment company may determine that those statements are meaningful to the users of the financial statements under certain circumstances or may be required to present those statements (for example, by regulation or contract).

The following example assumes that liquidation was deemed to be “imminent” on July 1, and the investment company is reporting as of December 31.



\* FASB ASC 205-30-45-1 indicates that an entity applying the liquidation basis of accounting shall, at a minimum, prepare a statement of net assets in liquidation and a statement of changes in net assets in liquidation. The statement of net assets in liquidation generally would include a schedule of investments.

[October 2016]

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