

FASB Issues Proposed Amendments to Consolidation Guidance for Not-for-Profit Entities

On August 3, 2016, the FASB issued a [proposed Accounting Standards Update](#)¹ (ASU) that would amend the consolidation guidance to clarify when a not-for-profit entity (NFP) that is a general partner should consolidate a for-profit limited partnership or similar legal entity. Comments on the proposed ASU are due by October 3, 2016.

Background

Before the effective date of [ASU 2015-02](#),² ASC 958-810³ requires that an NFP that is a general partner of a for-profit limited partnership (or a similar legal entity) must apply the consolidation guidance in ASC 810-20,⁴ unless that partnership interest is reported at fair value in accordance with certain other guidance. Under ASC 810-20, there is a presumption that a general partner controls a limited partnership, regardless of the extent of its ownership interest, unless the presumption can be overcome. The presumption can be overcome if the limited partners have either substantive kick-out rights or substantive participation rights. The guidance in ASU 2015-02 supersedes the guidance in ASC 810-20, thus eliminating the presumption of control by the general partner, and adds new guidance in the General Subsection of ASC 810-10⁵ to include when limited partners should consolidate a legal entity, which presumes that a reporting entity would first navigate through the variable interest entity (VIE) subsection of ASC 810-10 before applying the guidance in the General Subsection. Since NFPs are generally excluded from the scope of the VIE subsection and the guidance in the General Subsection of ASC 810-10 (as amended by ASU 2015-02) does not address when a general partner should consolidate a limited partnership, questions have arisen regarding the application of the consolidation guidance to NFPs after the effective date of ASU 2015-02.

Proposal

The proposed ASU resolves these questions by retaining the guidance in ASC 810-20 for NFPs and including such guidance in ASC 958-810. Therefore, the proposed ASU would require that an NFP that is a general partner of a for-profit limited partnership would presume to control the for-profit limited partnership, regardless of the extent of its ownership interest, unless the presumption can be overcome. Similar to the current guidance under ASC 810-20, the presumption can be overcome if the limited partners have either substantive kick-out rights or substantive participation rights.

The proposed ASU also clarifies when a limited partner should consolidate a for-profit limited partnership by incorporating the guidance that was added to the General Subsection of ASC 810-10 (as amended by ASU 2015-02) to ASC 958-810.

Effective Date and Transition

Effective date and transition requirements of the proposed ASU will depend on whether a reporting entity has adopted ASU 2015-02.

¹ FASB Proposed Accounting Standards Update, *Clarifying When a Not-for-Profit Entity That Is a General Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*.

² FASB Accounting Standards Update No. 2015-02, *Amendments to the Consolidation Analysis*.

³ FASB Accounting Standards Codification (ASC or the "Codification") Subtopic 958-810, *Not-for-Profit Entities: Consolidation*.

⁴ FASB ASC Subtopic 810-20, *Consolidation: Control of Partnerships and Similar Entities*.

⁵ FASB ASC Subtopic 810-10, *Consolidation: Overall*.

Accounting Journal Entry

For entities that have adopted ASU 2015-02, the Board will determine the effective date after it considers feedback on the proposed ASU. Further, such entities would apply the amendments by using either (1) a modified retrospective approach, which requires an entity to record a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption, or (2) a retrospective approach.

Entities that have not yet adopted ASU 2015-02 would be required to adopt the proposed amendments at the same time as they adopt ASU 2015-02 and would apply the same transition method elected for the application of ASU 2015-02.

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