

*Proposed Statement of Financial Accounting Concepts*

Issued: October 18, 2022  
Comments Due: January 16, 2023

Concepts Statement No. 8, Conceptual Framework  
for Financial Reporting

Chapter 2: The Reporting Entity

The Board issued this Exposure Draft to solicit public comment on a proposed Statement of Financial Accounting Concepts. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing comments to [director@fasb.org](mailto:director@fasb.org), or sending a letter to “Technical Director, File Reference No. 2022-ED200, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

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- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing comments to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2022-ED200
- Sending a letter to “Technical Director, File Reference No. 2022-ED200, FASB, 801 Main Avenue, PO Box 5116, Norwalk, CT 06856-5116.”

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# Proposed Statement of Financial Accounting Concepts No. 8

## Conceptual Framework for Financial Reporting

### Chapter 2: The Reporting Entity

October 18, 2022

Comment Deadline: January 16, 2023

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# Preface

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## Background

P1. The Financial Accounting Standards Board (FASB or Board) issued its first Concepts Statement in 1978 and issued six more by 2000. In 2004, the International Accounting Standards Board (IASB) and the FASB (the Boards) began a joint project to revise and converge their conceptual frameworks. The result of that joint project was FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting—Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information*. In late 2010, the Boards decided to postpone further action on their respective conceptual frameworks until after the completion of several joint projects and ultimately agreed to discontinue the effort to work on their frameworks on a joint basis.

P2. In January 2014, the FASB reactivated its Conceptual Framework project. This proposed Concepts Statement, which would become Chapter 2 of Concepts Statement 8, describes a reporting entity.

## Authoritative Status of the Conceptual Framework

P3. Paragraph 105-10-05-3 of the *FASB Accounting Standards Codification*<sup>®</sup> states that FASB Concepts Statements are not authoritative. Some standards are inconsistent with the Concepts Statements. This Concepts Statement or other Concepts Statements do not override authoritative standards. If accounting for a transaction or event is not specified in authoritative generally accepted accounting principles (GAAP), an entity first must consider accounting principles for similar transactions or events within authoritative GAAP and then consider nonauthoritative guidance from other sources (including Concepts Statements).

## How This Chapter of the Conceptual Framework Would Be Used

P4. This chapter of Concepts Statement 8 would be similar to the rest of the framework in that it establishes concepts that the Board would use in developing standards of financial accounting and reporting. In particular, this chapter would provide the Board with a framework for matters relating to the identification of a reporting entity. This chapter would provide the Board with a framework for developing standards that meet the objective of financial reporting and enhance the understandability of information for existing and potential investors, lenders, donors, and other resource providers of a reporting entity.



# Summary and Questions for Respondents

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## Summary

### Introduction to the Conceptual Framework

S1. The Conceptual Framework establishes the concepts that underlie financial reporting. The Conceptual Framework is a coherent system of fundamental concepts that flow from the objective of general purpose financial reporting. The fundamental concepts address the selection of transactions and other events and circumstances to be faithfully represented in general purpose financial reporting. In particular, the fundamental concepts address the items that meet the definitions of elements of financial statements; how those items should be recognized, measured, and disclosed; and how they should be summarized and presented in general purpose financial reporting.

### The Reporting Entity

S2. A reporting entity is a circumscribed area of economic activities that can be represented by general purpose financial reports that are useful to existing and potential investors, lenders, and other resource providers in making decisions about providing resources to the entity.

## Questions for Respondents

S3. The Board invites individuals and organizations to comment on all matters in this Exposure Draft, particularly on the issues and questions below. Comments are requested from those who agree with the proposed concepts as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed concepts are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Do you agree with the proposed description and features of a reporting entity in paragraphs RE4 and RE5? If not, why?

**Question 2:** Do you agree that a full set of consolidated financial statements is necessary to achieve the objective of general purpose financial reporting in circumstances in which a circumscribed area of economic activities represents a parent-subsidiary relationship? If not, why? (See paragraphs RE8 and RE9.)

**Question 3:** Do you agree that parent-only financial statements do not represent a full set of financial statements and, consequently, are not sufficient to achieve the objective of general purpose financial reporting? If not, why? (See paragraphs RE10 and RE11.)

**Question 4:** Do you agree that a portion of an entity can represent a reporting entity? If not, why? (See paragraphs RE12–RE14.)

**Question 5:** Do you agree that combined financial statements appropriately depict two or more entities that are under common control, including circumstances in which a parent-subsidiary relationship does not exist? If not, why? (See paragraph RE15.)

# Conceptual Framework for Financial Reporting

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## CHAPTER 2: THE REPORTING ENTITY

### Introduction

RE1. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders, and other resource providers in making decisions about providing resources to the entity.

RE2. The concept of the reporting entity was developed in the context of general purpose financial reporting. General purpose financial reporting, which is defined in Chapter 7, *Presentation*, of this Concepts Statement, provides useful financial information about a reporting entity that assists existing and potential resource providers in making resource allocation decisions. In making resource allocation decisions, resource providers form expectations about the reporting entity by evaluating (a) the entity's resources, (b) claims to the entity's resources, and (c) changes in those resources and claims during the period. A full set of financial statements, which is a component of general purpose financial reporting, is the principal way in which a reporting entity provides financial information that accomplishes the objective of general purpose financial reporting.<sup>1</sup>

RE3. Entities often report information, including financial information, in a variety of forms. Each of those entities could be thought of as a reporting entity. However, in the Conceptual Framework, reference to the reporting entity is in the context of an entity that produces general purpose financial reports.

### Description of a Reporting Entity

RE4. A reporting entity is a circumscribed area of economic activities that can be represented by general purpose financial reports that are useful to existing and potential investors, lenders, and other resource providers in making decisions about providing resources to the entity.

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<sup>1</sup>A full set of financial statements, as defined in paragraph PR20 of Chapter 7, *Presentation*, of this Concepts Statement, presents the elements of financial statements and the recognition and measurement related to those elements, including the information presented in paragraph PR18 of Chapter 7 of this Concepts Statement.

RE5. A reporting entity has three features:

- a. Economic activities of the entity have been conducted.
- b. Those economic activities can be distinguished from those of other entities.
- c. The financial information in general purpose financial reporting faithfully represents the economic activities of the entity in the circumscribed area and is useful in making decisions about providing resources to the entity.

RE6. In making resource allocation decisions, resource providers identify a circumscribed area of economic activities that they need to evaluate when considering providing resources. Identifying the economic activities of a circumscribed area is necessary for the reporting entity to faithfully represent its financial information in general purpose financial reporting. General purpose financial reports, including a full set of financial statements, that faithfully represent the economic activities of a circumscribed area enable the reporting entity to achieve the objective of general purpose financial reporting.

RE7. Identifying the reporting entity in a specific situation requires considering the boundary of the economic activities that have been conducted. The existence of a legal entity is not necessary to identify the reporting entity. The reporting entity can include more than one entity, or it can be a portion of an entity.

## Consolidated Financial Statements

RE8. If a circumscribed area of economic activities includes a parent-subsidiary relationship, a full set of consolidated financial statements that faithfully represents the circumscribed area's economic activities is necessary to meet the objective of general purpose financial reporting.

RE9. The net cash flows and other benefits to resource providers are dependent on the economic activities of both the parent entity and its subsidiaries. In assessing the prospects of net cash inflows from an investment in a parent entity, resource providers are interested in evaluating the parent entity and its subsidiaries as a single economic unit. A full set of consolidated financial statements, which includes the subsidiaries' (a) resources, (b) claims to those resources, and (c) changes in those resources and claims during the period, completely depicts the economic activities of the parent and its subsidiaries. Consequently, a full set of consolidated financial statements provides a faithful representation of the circumscribed area's economic activities. Principles of consolidation, including any exception to consolidation in circumstances in which a parent-subsidiary relationship exists, would be made at the standards level.

## Parent-Only Financial Statements

RE10. Parent-only financial statements do not completely depict the economic activities of a reporting entity that includes a parent-subsidary relationship and, therefore, are not sufficient to meet the objective of general purpose financial reporting. Parent-only financial statements present subsidiaries as investments and do not depict the subsidiaries' (a) resources, (b) claims to those resources, and (c) changes in those resources and claims during the period. Consequently, parent-only financial statements do not faithfully represent the operating results, financial position, and capital structure of the parent and its subsidiaries as a single economic unit.

RE11. Parent-only financial statements may provide useful information to resource providers in certain situations and also may serve as supplemental information to a full set of consolidated financial statements.

## Portion of an Entity

RE12. A portion of a larger entity, such as a subsidiary, branch, or division, can represent a circumscribed area of economic activities and, consequently, meet the description of a reporting entity. For a portion of an entity to achieve the objective of general purpose financial reporting and represent a reporting entity, it must (a) be a circumscribed area of economic activities and (b) faithfully represent those economic activities in general purpose financial reporting.

RE13. For a portion of a larger entity to prepare general purpose financial reports, including a full set of financial statements, it must identify the economic activities of its circumscribed area. Decisions on which economic activities should be attributable to the portion of an entity should result in general purpose financial reports that provide a faithful representation of the portion of the entity's financial position and performance.

RE14. Based on the needs of intended users, the portion of an entity may prepare financial reports that do not include a full set of financial statements. In those circumstances, the financial reports are special purpose. Because those special-purpose financial reports do not completely depict the portion of an entity's circumscribed area of economic activities, the financial reports would not be considered general purpose financial reporting.

## Combined Financial Statements

RE15. Combined financial statements can appropriately depict two or more entities that are under common control, including circumstances in which a parent-subsidary relationship does not exist. If two or more commonly controlled entities

are combined to represent a circumscribed area of economic activities, the circumscribed area can represent a reporting entity if it can prepare general purpose financial reports. A full set of combined financial statements is consistent with the objective of general purpose financial reporting.

*This proposed Concepts Statement was approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Richard R. Jones, *Chair*  
James L. Kroeker, *Vice Chairman*  
Christine A. Botosan  
Gary R. Buesser  
Frederick L. Cannon  
Susan M. Cospers  
Marsha L. Hunt

# Appendix: Basis for Conclusions

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## Introduction

BC1. This Basis for Conclusions summarizes the Board's considerations in reaching the conclusions in this proposed chapter. It includes reasons for accepting some alternatives and rejecting others. Individual Board members gave greater weight to some factors than others.

BC2. In January 2014, the FASB reactivated its Conceptual Framework project. The following are two key historical documents issued on the reporting entity concept:

- a. May 2008—FASB and IASB Discussion Paper, *Preliminary Views—Conceptual Framework for Financial Reporting: The Reporting Entity*
- b. March 2010—FASB and IASB proposed Concepts Statement, *Conceptual Framework for Financial Reporting: The Reporting Entity*.

BC3. The term *reporting entity* is used multiple times in existing Concepts Statements, and paragraph OB1 in Chapter 1 of this Concepts Statement explicitly references a concept of the reporting entity. Because the Conceptual Framework is intended to be a coherent system of interrelated objectives and fundamental concepts, there is a need to develop a concept of the reporting entity.

BC4. To be consistent with the objective of general purpose financial reporting, the Board concluded that it was essential for the description of a reporting entity to focus on the notion of a circumscribed area of economic activities. As described in paragraph RE6, in making resource allocation decisions, resource providers identify a circumscribed area of economic activities that they wish to evaluate for expected returns. To satisfy the informational needs of resource providers and achieve the objective of general purpose financial reporting, the circumscribed area, as a reporting entity, must provide general purpose financial reports, including a full set of financial statements, to resource providers.

## Description of a Reporting Entity

BC5. The objective of the reporting entity concept is to describe a reporting entity. The description of a reporting entity is consistent with the objective of general purpose financial reporting. The Board concluded that a concept of the reporting entity should focus on (a) identifying a circumscribed area of economic activities and (b) faithfully representing the economic activities of that circumscribed area in general purpose financial reporting. To faithfully represent the financial information of the reporting entity, that reporting entity must identify the economic activities of its circumscribed area. To meet the objective of general purpose financial

reporting, the reporting entity must faithfully represent the economic activities of its circumscribed area in general purpose financial reporting.

BC6. The Board concluded that while a legal entity is a circumscribed area of economic activities that could represent a reporting entity, the legal form or structure of an entity should not exclusively dictate whether a circumscribed area of economic activities represents a reporting entity. For example, a sole proprietorship is not legally separate from its owner; however, a sole proprietorship may prepare general purpose financial reports for its circumscribed area of economic activities.

## Consolidated Financial Statements

BC7. The Board decided not to define the term *control* in this proposed chapter. The Board reasoned that the term *control* is defined at the standards level. In concepts, if a circumscribed area of economic activities represents a parent-subsidiary relationship, a full set of consolidated financial statements that faithfully represents the circumscribed area's economic activities is necessary to meet the objective of general purpose financial reporting. As noted in paragraph RE9, any exception to consolidation in circumstances in which a parent-subsidiary relationship exists would be made at the standards level.

## Parent-Only Financial Statements

BC8. As noted in paragraph RE10, the Board concluded that parent-only financial statements do not completely depict the economic activities of a circumscribed area representing a parent-subsidiary relationship and, therefore, are not sufficient to meet the objective of general purpose financial reporting. Despite that conclusion, parent-only financial statements may provide useful information to resource providers as special-purpose financial reports. For example, parent-only financial statements may help resource providers assess the level of dividends that the controlling entity is legally able to pay without depending on transferred funds from its subsidiaries or perhaps reflecting the fair value of subsidiaries that are held as an investment if an entity elects to provide such fair value information for the investments.

## Portion of an Entity

BC9. The Board concluded that a portion of a larger entity can qualify as a reporting entity if the portion of the entity represents a circumscribed area of economic activities whose financial information can be faithfully represented in general purpose financial reporting.

BC10. The Board acknowledges that in some cases there are practical complexities in identifying the assets, liabilities, and operations of a portion of an entity, specifically for items that are allocated to the portion of the entity. To achieve the objective of general purpose financial reporting, the portion of a larger entity must prepare general purpose financial reports, including a full set of financial statements, that faithfully represent the economic activities of its circumscribed area, including activities that have to be allocated to the portion of the entity, such as corporate overhead activities.

## Combined Financial Statements

BC11. The Board concluded that combined financial statements may appropriately depict two or more entities that are under common control, including circumstances in which a parent-subsidiary relationship does not exist. The Board reasoned that two or more commonly controlled entities that are combined can represent a circumscribed area of economic activities and, therefore, meet the description of a reporting entity. Accordingly, general purpose financial reports, including a full set of combined financial statements, that faithfully represent the circumscribed area's economic activities achieve the objective of general purpose financial reporting.