

# FINANCIAL ACCOUNTING STANDARDS BOARD (FASB) ISSUES STATEMENT ON DISCLOSURE OF INFORMATION ABOUT CAPITAL STRUCTURE

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The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) # 129, Disclosure of Information about Capital Structure. The Statement was issued in February 1997, and is effective for financial statements for periods ending after December 15, 1997. This statement applies to all entities, public and nonpublic, that have issued securities addressed by the Statement. The Statement defines securities as “the evidence of debt or ownership or a related right.” Therefore, this Statement will apply to certain stock cooperatives, and to certain timeshare associations that have limited time memberships. It may also apply to all associations, as the membership interest represents an evidence of an ownership right.

The FASB considered this whole area of capital structure disclosures as part of the topic of earnings per share, which is the subject of SFAS #128, Earnings Per Share. SFAS #128 is applicable only to publicly held companies. The Board noted during this consideration that some of the disclosures about capital structure provided useful information. The Board then decided to make a separate Statement that would be applicable to all entities, rather than just publicly held corporations. The statement establishes the following standards:

## Information about securities

The standards of financial accounting and reporting require that an entity disclose the number of shares authorized, issued, and outstanding as of the balance sheet date. The entity shall also disclose the number of shares issued upon conversion, exercise, or satisfaction of required conditions during the most recent annual fiscal period.

The entity shall also explain, in summary form within its financial statements, any pertinent rights and privileges of securities outstanding. Examples are dividend and liquidation preferences, participation rights, call prices and dates, conversion or exercise prices or rates and pertinent dates, sinking-fund requirements, unusual voting rights, and significant terms of contracts to issue additional shares.

## Liquidation preference of preferred stock

Any entity that issues preferred stock shall disclose any preferences on liquidation that exist. In addition, the entity must disclose aggregate or per share amounts at which preferred stock may be called, and amounts of arrearages on cumulative preferred dividends.

## Redeemable stock

Where redeemable stock exists, disclosures must include the amount of redemption requirements for each of the five years following the balance sheet date.

## Conclusion

This statement clearly affects homeowners’ associations, as membership interests are included as “securities” in this statement. This Statement clearly impacts disclosures of stock cooperative corporations. In addition, many timeshare associations include limited time use membership structures that would be subject to the disclosure requirements of this Statement. This Statement will be effective for all calendar 1997 financial statement periods.

**Note:** A modified version of this article was published in CAI’s “Ledger Quarterly,” Summer 1997 Issue

