September 11, 2018

Accounting considerations for UP-C transactions

Accounting for common umbrella partnership–C corporation transactions

Summary

The use of an umbrella partnership–C corporation (UP-C) structure is an increasingly common way for owners of a pass-through entity to engage in certain transactions, like raising capital in public markets or business combinations, while retaining the tax benefits of owning a pass-through entity or even recognizing added tax benefits. In an UP-C structure, pre-transaction owners of the pass-through entity retain direct ownership in the pass-through entity, while new investors own an indirect interest in the pass-through entity through a Subchapter C corporation created to facilitate the transaction.

UP-C transactions present certain unique accounting challenges, including how the Subchapter C corporation should account for the acquisition of the pass-through entity and for noncontrolling interests that might arise from the transaction, as well as how the transaction impacts the historical equity presentation, including earnings-per-share. While there are various legal and tax implications that an entity should consider before using an UP-C structure, this bulletin focuses only on the main accounting challenges arising from UP-C transactions.

Contents

A. Overview of UP-C structures

The owners of a pass-through entity, such as a limited partnership (LP), may use UP-C structures to raise capital in public markets or engage in a business combination, while retaining the tax benefits of owning a pass-through entity or even recognizing added tax benefits. In an UP-C structure, pre-transaction owners of the pass-through entity retain direct ownership in the pass-through entity, while new investors own an indirect interest in the pass-through entity through a Subchapter C corporation, which is created to facilitate the transaction. The discussion below illustrates common UP-C IPO transactions and the related accounting issues. Keep in mind, however, that the accounting implications for each UP-C transaction depend on the facts and circumstances of each particular transaction and resulting structure.

Description of a typical UP-C IPO

A typical UP-C IPO transaction follows these three steps, which generally happen contemporaneously.

Step 1 – Formation of the umbrella LP

An operating entity (or entities) form an umbrella LP if one does not already exist. The pre-IPO investors ("legacy investors") in the operating entity contribute 100 percent of their interests in the operating entity to the LP, in exchange for 100 percent of the limited partner units (LP units) in the LP as well as 100 percent of the general partner units (GP units). Typically the LP units hold only economic rights, while the GP units hold only voting rights. Each legacy investor's individual ownership of LP and GP units is proportionate to their pre-transaction ownership in the operating entity.

Step 2 – Creation of the C corporation

The legacy investors then create a C corporation, which will become the public entity in the IPO. The C corporation typically has two classes of shares: Class A shares, which have voting rights and economic rights, and Class B shares, which have voting rights but no economic rights. The voting rights of the Class B shares will be some multiple of the Class A voting rights based on the conversion ratio discussed in Step 3 below.

Step 3 – IPO

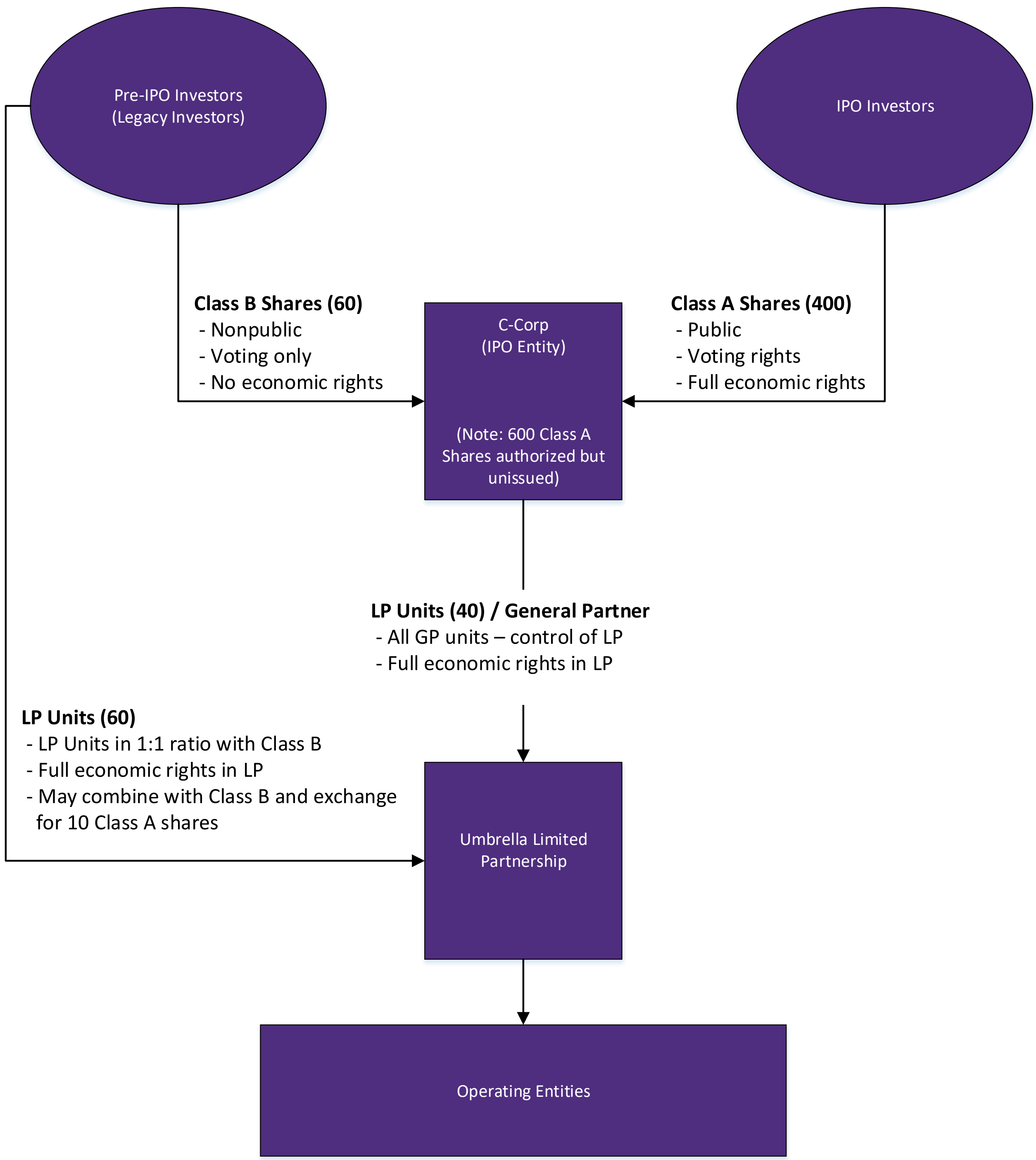
Finally, two things happen contemporaneously: The C corporation sells its Class A shares to public shareholders in an IPO, and the C corporation acquires 100 percent of the GP units and the proportion of LP units from the legacy investors corresponding to the proportion of all Class A shares sold in the IPO.

For instance, if the C corporation sold 40 percent of the Class A shares in the IPO, the C corporation would purchase 40 percent of the LP units. In exchange for the LP units and GP units, the C corporation transfers to the legacy investors the cash proceeds from the IPO and 100 percent of the Class B shares in the C corporation. The Class B shares are issued in a 1:1 ratio with the LP units retained by the legacy investors in the LP. The legacy investors typically have the right to exchange a combination of Class B shares and LP units for public Class A shares using an established conversion ratio. The combination of the Class B shares in the C corporation and LP units in the umbrella LP are typically structured as the economic and voting equivalent of Class A shares after considering the conversion ratio.

To illustrate the steps above, assume that the legacy investors held 100 LP units in the LP prior to the formation of the C corporation. The legacy investors intend to sell 40 percent of their interest in the LP in the public markets and contribute 40 LP units and all GP units to the C corporation. The C corporation, which has authorized 1,000 Class A shares, then sells the 400 Class A shares to the public in an IPO, transfers the proceeds raised to the legacy investors, and finally issues 60 Class B shares to the legacy investors, consistent with their retained LP units. The Class B shares' voting rights are 10:1 compared with the voting rights of the Class A shares. The legacy investors may exchange the combination of one LP unit and one Class B share for 10 of the authorized, but unissued, Class A public shares.

The following flowchart summarizes the interests of each party in an UP-C IPO, as described above.

Illustrative UP-C Structure – IPO



B. Common accounting issues in UP-C transactions

This section discusses several accounting issues that are commonly associated with UP-C transactions.

Accounting by the C corporation

Following an UP-C IPO transaction, such as the one discussed in Section A, the C corporation is required to issue financial statements as a public company, and the following discussion focuses on some of the major accounting considerations pertinent to the newly public entity's financial reporting.

Upon an UP-C IPO, the new, combined entity should determine which one of the combining entities is the accounting acquirer by applying the guidance in ASC 810, *Consolidation,* and ASC 805, *Business Combinations*. In an UP-C IPO, while the C corporation is the legal acquirer of the LP, it may not be the acquirer for accounting purposes. Often the LP will be the accounting acquirer of the C corporation, despite not being the legal acquirer.

The potential accounting scenarios for an UP-C IPO transaction are described in detail below, and summarized in Appendix A.

Determining whether the C corporation is a substantive entity

The first step in determining whether the acquisition of the LP by the C corporation is a business combination, reverse acquisition, or a recapitalization is determining whether the C corporation is a "substantive" entity and may therefore be considered the acquirer of the LP according to ASC 805.

Determining whether the C corporation is a "substantive" entity depends on whether the C corporation had significant pre-combination activities. According to the guidance in ASC 805-10-55-15, if a new entity is formed to effect a business combination by issuing equity interests, one of the combining entities that existed before the business combination is the acquirer. On the other hand, this guidance goes on to say that a new entity that transfers cash or other assets, or one that incurs liabilities as consideration and survives the transaction as a continuing entity, may be the acquirer for accounting purposes. We understand the SEC staff believes that a newly formed entity with significant pre-combination activities may be the accounting acquirer. Generally, raising equity capital from third-party public investors, by itself, is not considered a significant pre-combination activity. In contrast, issuing debt to finance the acquisition is generally considered a significant pre-combination activity.

Accounting treatment if the C corporation a not a substantive entity

If the C corporation is not a substantive entity, then the legal acquisition of the LP by the C corporation is similar to a transaction in which a public shell company legally acquires an operating company. The SEC's Division of Corporation Finance indicates in the *Financial Reporting Manual* that a transaction with a public shell is not a business combination, but rather a recapitalization of the operating company, equivalent to the LP issuing stock for the net monetary assets of the C corporation. In the recapitalization, the historical financial statements of the LP should be recast to "take on" the equity structure of the C corporation by following the guidance in ASC 845, *Nonmonetary Transactions.* See the "Presentation in a recapitalization" section below for an illustration of the presentation of a recapitalization.

Accounting treatment if the C corporation is a substantive entity

If the C corporation is a substantive entity and the LP qualifies as a "business," as defined in ASC 805, then the transaction is evaluated as a business combination, as described in greater detail in the following sections. If the C corporation is a substantive entity and the LP is not a business, then the transaction is treated as an asset acquisition by the C corporation.

Applying the FASB's definition of a 'business'

The FASB significantly amended the definition of a business in ASU 2017-01, *Clarifying the Definition of a Business*, by providing a new framework for entities to determine whether a set of assets and activities comprises a business. The new framework hinges on whether the acquired set includes a substantive process. The amendments also include the introduction of the single or similar asset threshold. When applying the threshold, if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business.

ASU 2017-01 is effective for public business entities for interim and annual periods beginning after December 15, 2017, for all other entities for annual periods beginning after December 15, 2018, and for interim periods beginning after December 15, 2019. The guidance may be early adopted.

For more information on ASU 2017-01, see Grant Thornton's NDS 2017-01.

To determine whether the LP meets the definition of a "business," the LP and the operating entity (or entities) will typically be evaluated collectively. The LP is a holding company designed to facilitate the IPO transaction by having a controlling financial interest in the operating entity (or entities). The LP will typically meet the requirements to consolidate the operating entity (or entities) under ASC and, therefore, the LP and the operating entities may be considered collectively when determining whether they meet the definition of a business.

Business combination accounting in an UP-C transaction

If the C corporation is a substantive entity, and if the LP meets the definition of a business, then the guidance in ASC 805 should be applied to the legal acquisition of the LP by the C corporation. In order to determine the appropriate accounting for the business combination, the new combined entity must first decide which of the combining entities is the acquirer.

Identifying the acquirer

The guidance in ASC 805 requires one of the entities involved in a business combination to be identified as the acquirer. The acquirer is the combining entity that obtains a controlling financial interest in the other combining entity (or entities), as defined in ASC 810. In many circumstances, it is apparent which of the combining entities is the acquirer. For instance, when one entity transfers cash or other assets, or assumes liabilities for a controlling financial interest in another entity, that entity is usually the acquirer in a business combination. However, in combinations involving the mutual exchange of equity interests or newly formed entities, such as in an UP-C transaction, identifying the acquirer may be less clear.

The guidance in ASC 805-10-55-11 through 55-15 provides several factors that should be considered to help in determining which of the combining entities is the acquirer in a business combination:

- *Relative voting rights of pre-combination owners:* After the combination, which of the combining entities' pre-combination owners have the largest voting rights in the combined entity?
- *Existence of a large minority voting interest:* If no single pre-combination owner or group of owners has a controlling voting interest, which group has the largest minority voting interest?
- *Composition of the combined entity's governing body:* Can one pre-combination ownership group elect, appoint, or remove a majority of the combined entity's governing body?

- *Composition of the combined entity's senior management:* Is the senior management team of the combined entity dominated by management of either one of the combining entities?
- *Terms of the exchange of equity interests:* Did one of the combining entities pay a premium exceeding the pre-combination fair value of the equity interests of the other combining entity or entities?
- *Size of the pre-combination entities:* Is one of the pre-combination entities significantly larger than the other combining entity or entities?
- *Multiple combining entities:* Which of the combining entities initiated the combination?

ASC 805 does not establish a hierarchy among these factors, so judgment is required in identifying the acquirer in a business combination.

In the UP-C transaction described above, although C corporation is the legal acquirer of LP, LP would be the accounting acquirer of C corporation based on an analysis of the factors in ASC 805-10-55-11 through 55-15, as shown in the following table.

Factor	C corp	LP	Commentary
Relative voting rights		X	Legacy investors have a controlling interest, whereas new public shareholders do not
Minority interest	Neutral		Minority interest was sold in an IPO and is likely not concentrated in a single party. Additionally, the legacy investors retained a controlling financial interest.
Governing body		X	Legacy investors may appoint via controlling financial interest
Management		X	Management of LP will continue, as C corporation did not have management since it was not an operating entity
Exchange of equity interests	Neutral		Unlikely that a premium was paid by either party
Size		X	LP is likely significantly larger than C corporation
Transaction initiation		X	LP (or its owners) created C corporation for the transaction
New Co: exchange assets	X		C corporation transferred cash to the owners of LP

Because the LP is determined to be the acquirer based on the analysis above, the combination between the C corporation and the LP would be considered a reverse acquisition in which LP is the accounting acquirer of C corporation.

Determining whether the entities are under common control

After determining which of the combining entities is the acquirer, the next step in determining the appropriate accounting for the business combination is evaluating whether the LP and the C corporation are under common control. U.S. GAAP does not define “common control,” but entities are typically considered to be under common control when they share an ultimate common parent entity that has a “controlling financial interest,” as defined in ASC 810, in both of the combining entities before and after the transaction. An entity has a controlling financial interest if it holds a majority of the voting rights in a voting interest entity or if it is the primary beneficiary of a variable interest entity.

Determining if a controlling financial interest exists

Determining whether a controlling financial interest exists is a complex analysis.

See Grant Thornton’s NDS 2017-03 for a step-by-step approach to applying the U.S. GAAP consolidation model.

In the organizational flowchart above, the C corporation would analyze whether a single party controls both the C corporation and the LP before and after the transaction. If the single party retains control of both the C corporation and the LP after the transaction, then the transaction is a combination between entities under common control, and the guidance in ASC 805-50 should be applied.

If an acquirer obtains a controlling financial interest in a business, the acquirer must establish a new accounting basis for the acquired business according to the guidance in ASC 805. However, a common control transaction does not result in an ultimate change in control, and so the acquirer should not establish a new accounting basis for the acquired business. Rather, the acquirer should recognize the acquired business using the parent entity’s accounting basis. Any difference between consideration transferred by the acquirer and the net assets of the acquired entity calculated using the parent’s basis (the “carryover basis”) is considered an equity transaction with the parent. As a result, no goodwill or bargain purchase gain is recognized.

Some of the key differences between common control transactions and transactions in which the combining entities are not under common control are summarized in Appendix B.

How to present the financial statements

Once the appropriate accounting for the combination between the LP and the C corporation is determined, the combined entity must determine how to present its future and historical financial statements, including historical earnings per share. As discussed above, if the C corporation is not a substantive entity, the combination between the C corporation and the LP is treated as a recapitalization of the LP. If the C corporation is a substantive entity and the LP is a business, then the transaction is a business combination. If the C corporation is a substantive entity and the LP is not a business, then the transaction is treated as an asset acquisition of the LP by the C corporation.

The following discussion summarizes some of the key accounting and reporting differences between business combinations, recapitalizations, and asset acquisitions.

Presentation in a recapitalization

When the C corporation is not a substantive entity, the combination between the C corporation and the LP is a recapitalization. A recapitalization is equivalent to the LP issuing stock for the net monetary assets of the C corporation, accompanied by a restructuring of the LP's capital structure to that of the C corporation. Effectively, the historical financial statements of the LP will be recast to "take on" the equity structure of the C corporation.

Because the combination between the C corporation and the LP is treated as an issuance of stock, the combined entity should consider the following guidance in ASC 505, *Equity*, regarding equity issuance costs:

- Costs that are not direct and incremental to the issuance of equity are expensed, including costs related to authorized, but unissued, shares.
- Costs that are direct and incremental to the issuance of new shares are treated as a reduction of the proceeds raised (the net monetary assets of the C corporation)

The LP's historical financial statements are the historical financial statements of the combined entity, with no adjustments made to the LP's historical revenue, expenses, assets, or liabilities. However, while historical total equity is not adjusted, the components of historical total equity are adjusted to reflect the capital structure of the C corporation, using the guidance in ASC 805-40-45-3 through 45-5 on historical earnings per share.

If the LP is organized as a corporate entity and uses captions in its equity statement that are commonly used by corporations, such as common stock, additional paid-in capital (APIC), and retained earnings, then the historical equity of the LP should be presented as follows:

- *Common stock:* Both the number of shares outstanding and their par value are adjusted to reflect the par value of the outstanding stock of the C corporation as a result of the UP-C transaction. Any resulting adjustment to the LP's historical common stock is offset against APIC.
- *Retained earnings:* Retained earnings are not adjusted.
- *APIC:* APIC is adjusted for any necessary modifications to common stock and for the net monetary assets of the C corporation.

To determine the historical shares outstanding in prior periods for presentations of both the historical equity statement and earnings per share, the same weighted-average shares outstanding are used, adjusted by the exchange ratio between the LP and the C corporation. See Appendix C for an illustration of this presentation.

If the LP is organized as a partnership and does not distinguish between retained earnings and partners' contributed capital, it may be impractical to retrospectively adjust the historical equity accounts of the LP to reflect the capital structure of the C corporation. In these instances, the combined entity should use the C corporation's capital structure from the transaction date going forward, and historical equity presentation will not be impacted. See Appendix C for an illustration of this presentation.

Presentation in a reverse acquisition of the C corporation by the LP

If C corporation is a substantive entity and the LP is a business, then the transaction is a business combination. Most UP-C IPO transactions that are business combinations are accounted for as a reverse acquisition in which the LP is the accounting acquirer and the C corporation is the legal acquirer. In a reverse acquisition, the presentation of the historical and future financial statements of the combined entity are nearly identical to the presentation of historical and future financial statements for a recapitalization. However, in a business combination, the costs to affect the combination must be expensed.

If the transaction is a combination of entities under common control, the historical financial statements of the acquirer should be adjusted as though the entities were combined for every historical period in which they were under common control. However, in many UP-C IPO transactions, the C corporation is formed for the purpose of facilitating the IPO transaction and either did not exist in the historical periods or had minimal assets and liabilities.

Presentation in an acquisition of the LP by the C corporation

In the uncommon circumstance that the C corporation is a substantive entity, the LP is a business, and the C corporation is judged to be the accounting acquirer of the LP, the C corporation should apply the acquisition method in ASC 805 to the LP, unless the LP and the C corporation are under common control. The acquisition requires the accounting acquirer to create a new basis of accounting in the acquired entity, using the fair values of the assets acquired and liabilities assumed as of the acquisition date. However, if the LP and the C corporation are under common control, then the acquirer should recognize the acquired entity on the same basis as the entities' common parent.

Additionally, unlike in a recapitalization and a reverse acquisition, the historical financial statements of the LP in this uncommon situation should not be presented. Rather, the results of the LP should be included in the financial statements of the C corporation from the acquisition date going forward, and the costs to affect the combination must be expensed.

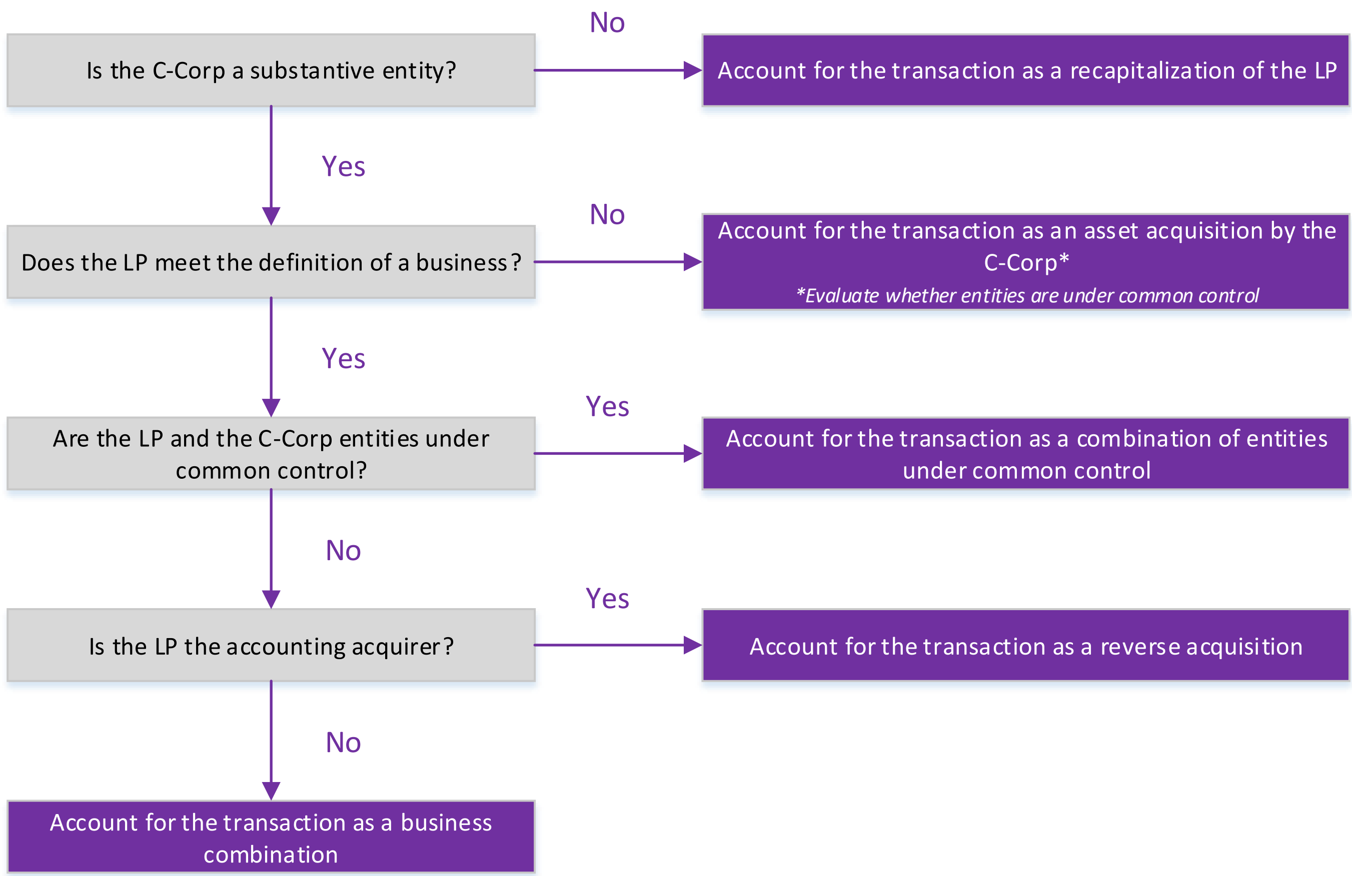
Presentation in an asset acquisition

If the C corporation is a substantive entity and the LP is not a business, then the transaction is treated as an asset acquisition of the LP by the C corporation using the relevant guidance for asset acquisitions in ASC 805-50.

Appendix A

Determining the applicable accounting model in an UP-C IPO transaction

The following diagram shows the five possible accounting scenarios for an UP-C IPO transaction



Appendix B

Accounting considerations for common control transactions

The table below summarizes the key differences between accounting for business combinations and asset acquisitions that are under common control and those that are not under common control.

Key accounting considerations in UP-C transaction				
Business combination				
Item	**Entities under common control**		**Entities not under common control**	
Assets/liabilities	Ultimate parent's basis*	805-50	Fair value at date of acquisition	805-10
Historical results of operating entities	Pushed back to earliest period presented Historical EPS presented on basis of C corporation's equity structure	805-50 805-50	Ignored	805-10
Non-controlling Interest (NCI)	Allocation of net assets to NCI treated as equity transaction	805-10-45	Fair value at date of acquisition	805-10
Asset acquisition				
Item	**Entities under common control**		**Entities not under common control**	
Assets/liabilities	Ultimate parent's basis*	805-50	Fair value at date of acquisition	Other
Historical results of operating entities	Ignored	805-10	Ignored	805-10
NCI	Allocation of net assets to NCI treated as equity transaction	805-10-45	Fair value at date of acquisition	805-10

* If the transferred business or asset (in this case, the operating entities) were previously acquired by the ultimate parent and push-down accounting was not applied, then push-down accounting must be applied retroactively to the transferred business or asset so that the business or asset will be presented using the ultimate parent's basis of accounting, as required by ASC 805-50.

Appendix C

Presentation of historical equity statements

This appendix illustrates the presentation of the historical equity statements in either a recapitalization or a reverse acquisition when the combined entity is a corporation and the historical entity's equity structure is also that of a corporation.

When the LP is organized as a corporation

The following illustration shows how the post-IPO public C corporation presents the historical equity statements when the LP is organized as a corporate entity and uses captions in its equity statement commonly used by corporations, such as common stock, additional paid-in-capital (APIC), and retained earnings.

For this illustration, assume that the legacy investors held 100 shares of OpCo prior to the formation of HoldCo and that they intend to sell 40 percent of their interest in the public markets. The legacy investors contribute 40 member units of OpCo to HoldCo. HoldCO, which has authorized 1,000 Class A shares, then sells the 400 Class A shares to the public in an IPO, transfers the proceeds raised to the legacy investors, and finally issues 60 Class B shares to the legacy investors, consistent with their retained LP Units. The Class B shares' voting rights are 10:1 compared with the voting rights of the Class A shares. The legacy investors may exchange the combination of one member unit and one Class B share for 10 of the authorized, but unissued, Class A public shares.

Determining the equity adjustments as of the transaction date

Step 1: Carrying balances of OpCo and HoldCo upon formation of HoldCo

	OpCo		HoldCo	
Total Assets		50,000		16,000
Total Liabilities		(10,000)		-
Net Assets		40,000		16,000
Class A Shares	100 Shares	100	400 Shares	400
Class B Shares			60 Shares	60
APIC		31,900		15,540
Retained Earnings		8,000		-
NCI		-		-
Total Equity		40,000		16,000

Step 2: Adjustments necessary to present the combined equity balances of OpCo and HoldCo within the equity structure of HoldCo

	OpCo		**Adjustments to Equity**	
			Adjustment	*Total*
Class A Shares	100 Shares	100	+300	400
Class B Shares			+60	60
APIC		31,900	[Net Adjustment]*	13,940
Retained Earnings		8,000	[No Adjustment]	8,000
NCI			+56,000 x 60%	33,600
Total Equity		40,000		56,000

Step 3: Combination of OpCo and HoldCo upon formation of HoldCo

	OpCo		HoldCo		Combined	
Total Assets		50,000		16,000		66,000
Total Liabilities		(10,000)		-		(10,000)
Net Assets		40,000		16,000		56,000
Class A Shares	100 Shares	100	400 Shares	400	400 Shares	400
Class B Shares			60 Shares	60	60 Shares	60
APIC		31,900		15,540		13,940
Retained Earnings		8,000		-		8,000
NCI		-		-		33,600
Total Equity		40,000		16,000		56,000

**The adjustment to additional-paid-in-capital above in Step 2 is determined by reducing the total increase in equity from the transaction (in this case, the $16,000 in total equity of HoldCo) by the increase in the Class A, Class B, and non-controlling interest accounts ($300, $60, and $33,600, respectively), for a net reduction in additional-paid-in-capital of $17,960.*

Historical presentation

Historical Statement of Shareholders' Equity

	Common Stock		Retained Earnings	Additional Paid-In Capital	NCI	Total Equity
	Shares	Amount				
1/1/X1	100	100	5,000	31,900	-	37,000
Net Income			1,500			1,500
12/31/X1	100	100	6,500	31,900	-	38,500
Net Income			1,000			1,000
12/31/X2	100	100	7,500	31,900	-	39,500
Net Income			500			500
12/31/X3	100	100	8,000	31,900	-	40,000

Recast Statement of Shareholder's Equity								
	Class A Shares		Class B Shares		Retained Earnings	Additional Paid-In Capital	NCI	Total Equity
	Shares	$	Shares	$				
1/1/X1	400	400			5,000	31,600	-	37,000
Net Income					1,500			1,500
12/31/X1	400	400			6,500	31,600	-	38,500
Net Income					1,000			1,000
12/31/X2	400	400			7,500	31,600	-	39,500
Net Income					500			500
HoldCo Formation			60	60		(17,660)	33,600	16,000
12/31/X3	400	400			8,000	13,940	33,600	56,000

When the LP is organized as a partnership

The following illustration shows how the post-IPO public C corporation presents the historical equity statements when the LP is organized as a limited partnership or a similar entity and does not distinguish between partners' contributed capital and retained earnings.

For this illustration, assume that the legacy investors held 100 LP units in the LP prior to the formation of HoldCo and that they intend to sell 40 percent of their interest in the LP in the public markets. The legacy investors contribute 40 LP units and all of the GP units to HoldCo. HoldCo, which has authorized 1,000 Class A shares, then sells the 400 Class A shares to the public in an IPO, transfers the proceeds raised to the legacy investors, and finally issues 60 Class B shares to the legacy investors, consistent with their retained LP Units. The Class B shares' voting rights are 10:1 compared with the voting rights of the Class A shares. The legacy investors may exchange the combination of one LP unit and one Class B share for 10 of the authorized, but unissued, Class A public shares.

Determining the equity adjustments as of the transaction date

Step 1: Carrying balances of OpLP and HoldCo upon formation of HoldCo

	OpLP	HoldCo	
Total Assets	50,000		16,000
Total Liabilities	(10,000)		-
Net Assets	40,000		16,000
Class A	-	400 Shares	400
Class B	-	60 Shares	60
APIC	-		15,540
Retained Earnings	-		-
Member's Equity	40,000		-
NCI	-		-
Total Equity	40,000		16,000

Step 2: Adjustments necessary to present the combined equity balances of OpLP and HoldCo within the equity structure of HoldCo

	OpLP	Adjustments to Equity	
		Adjustment	*Total*
Class A	-	400	400
Class B	-	60	60
APIC	-	[Net Adjustment]**	21,940
Retained Earnings	-		-
Member's Equity	40,000	-40,000	-
NCI	-	33,600	33,600
Total Equity	40,000		56,000

Step 3: Combination of OpLP and HoldCo upon formation of HoldCo

	OpLP	HoldCo		Combined	
Total Assets	50,000		16,000		25,000
Total Liabilities	(10,000)		-		(10,000)
Net Assets	40,000		16,000		15,000
Class A	-	400 Shares	400	400 Shares	400
Class B		60 Shares	60	60 Shares	60
APIC	-		15,540		21,940
Retained Earnings	-		-		-
Member’s Equity	40,000		-		-
NCI	-		-		33,600
Total Equity	40,000		16,000		56,000

***The adjustment to additional-paid-in-capital above in Step 2 is determined by reducing the total increase in equity from the transaction (in this case, the $16,000 in total equity of HoldCo) by the increase in the Class A, Class B, non-controlling interest accounts ($400, $60, and $33,600, respectively) and adding back the elimination of the member’s equity account, for a net increase in additional-paid-in-capital of $21,940.*

Historical presentation

Historical Statement of Member's Equity

	Member's Equity	Total Equity
1/1/X1	37,000	37,000
Net Income	1,500	1,500
12/31/X1	38,500	38,500
Net Income	1,000	1,000
12/31/X2	39,500	39,500
Net Income	500	500
12/31/X3	40,000	40,000

Recast Statement of Shareholder's Equity

	Member's Equity	Class A Shares		Class B Shares		APIC	NCI	Total Equity
		Shares	$	Shares	$			
1/1/X1	37,000					-	-	37,000
Net Income	1,500							1,500
12/31/X1	38,500					-	-	38,500
Net Income	1,000							1,000
12/31/X2	39,500					-	-	39,500
Net Income	500							500
HoldCo Formation	(40,000)	400	400	60	60	21,940	33,600	16,000
12/31/X3			400		60	21,940	33,600	56,000