



On the Radar

Carve-Out Financial Statements

Deloitte's [Divestitures Quarterly Update — Q2 2025](#) notes that relative to the first quarter of 2025, U.S. divestiture transaction volume increased by 13.9 percent in the second quarter of the year to 493 deals. Technology and industrial sectors led this expansion as firms embraced strategic realignment and growth opportunities after a year of market challenges. At the same time, domestic strategic buyers' interest in divestitures continues to grow significantly, accounting for 52.7 percent of buyers in the second quarter of 2025 compared with 48 percent in the first.

Carve-out financial statements are often required as a result of divestiture activity, and providing complete and accurate carve-out financial statements in a timely manner can be key to the success of a divestiture transaction. Some key management considerations and common pitfalls associated with preparing such statements are discussed below.

Key Management Considerations and Common Pitfalls Associated With Preparing Carve-Out Financial Statements

Preparing carve-out financial statements can be challenging, often requiring management to use judgment and to carefully plan ahead. Factors and common pitfalls for management to consider when preparing these statements include the following:

- *Assembling the right team* — Involving the appropriate personnel is an integral step in preparing accurate and complete carve-out financial statements. Management should determine which employees can help provide the information it needs to prepare such statements, which may include individuals outside accounting (e.g., in operations or human resources) as well as those involved in negotiating the transaction. In addition, management may need to engage external specialists (e.g., tax or valuation experts).
- *Determining the transaction's structure and scope* — In many divestiture transactions, planning for and preparing carve-out financial statements starts before the final transaction structure is determined or negotiations begin. Identifying the expected structure and which entities or operations will be included within it is a key step in developing the carve-out financial statements. Such financial statements may be in the form of (1) public-entity financial statements subject to SEC requirements, (2) nonpublic-entity financial statements to which certain U.S. GAAP presentation and disclosure requirements do not apply and for which reporting alternatives developed by the Private Company Council may be elected, and (3) special-purpose financial information that a user may ask for in a specific form or may request to be prepared in accordance with another comprehensive basis of accounting. Thus, the transaction structure can affect the form and content of the financial statements, the years to be provided, and the audit procedures required.

Common pitfall — A lack of communication between the deal team and the preparers of the carve-out financial statements may result in late revisions to such statements because of changes in the structure and scope of the transaction.

- *Materiality and evaluating misstatements* — Because the materiality thresholds related to the carve-out financial statements will most likely be lower than those associated with the consolidated parent entity, management may need to assess the carve-out entity's accounts and balances in even more detail than they may have been subjected to during preparation of the parent-entity financial statements. The parent entity's historical corrected or uncorrected misstatements and disclosures related to the carve-out entity that were previously considered immaterial to the parent's financial statements would need to be reconsidered on the basis of materiality thresholds applicable to the carve-out financial statements.
- *Internal controls* — Management should design and implement processes and controls for preparing the carve-out financial statements (e.g., management may need to design, implement, and execute controls related to the appropriate determination and recording of income statement and balance sheet allocations to the carve-out financial statements). Although an entity may often be able to leverage existing financial statement preparation controls, management should evaluate whether it needs to modify such controls to accommodate process changes related to preparing the carve-out financial statements.
- *Supporting documentation* — Management should consider the type of documentation necessary to support the assumptions made and results achieved in preparing carve-out financial statements. In some cases, the supporting documentation may already exist (e.g., compensation expense is usually calculated and allocated on an employee-by-employee basis). However, management may need to develop and maintain new documentation for the allocations made for the carve-out financial statements (e.g., a rational and systematic method for allocating selling, general, and administrative expenses). In other cases, intercompany transactions may have historically been eliminated within the

parent's financial statements; however, those transactions would be reported in the carve-out financial statements, and appropriate supporting documentation would be required.

Management may choose to use existing accounting systems as much as possible when preparing carve-out financial statements. However, the ability to use such systems may be limited depending on the level of detail at which the account balances are maintained as well as the structure of the carve-out entity (e.g., whether the carve-out represents a segment of the parent or only part of a segment). If the carve-out entity represents a segment or component for which discrete financial information is readily available, management may be able to readily extract information from its existing accounting records. However, if the carve-out entity includes portions of different segments, further involvement of IT specialists may be required.

***Common pitfall* — Failing to identify the appropriate level of granularity needed in transaction records and support for carve-out financial statements may result in delays and rework.**

- *Significant judgments and estimates* — In preparing carve-out financial statements, management will often need to make significant accounting judgments and estimates related to allocating account balances and activities to the carve-out financial statements and determining the appropriate disclosures to include in these financial statements. Significant estimates include (1) the allocation of goodwill or intangible assets, employee benefits (including pension and postretirement obligations), shared assets, corporate expenses, and income taxes; (2) the identification of operating and reportable segments; and (3) the evaluation of subsequent events.

***Common pitfall* — Inadequate documentation and disclosure of key judgments can lead to questions and comments during the audit or SEC review process, if applicable.**

- *Working with auditors* — If, as part of the preparation of carve-out financial statements, external auditors need to perform an audit and issue an audit opinion, the auditors will need to understand the process undertaken by management for collecting and maintaining all supporting documentation used in such preparation. For balances in which judgment or complex estimates are required, management should ensure that its documentation contains enough detail for auditors to reach conclusions about the reasonableness of the amounts allocated to, and balances presented in, the carve-out financial statements. Topics on which up-front and regular dialogue with auditors may help include (1) identifying the carve-out entity and the carve-out entity's financial statements, (2) materiality and evaluating misstatements, (3) internal control over financial reporting, and (4) significant management judgments and accounting estimates.

***Common pitfall* — Failure to identify a requirement for an audit early in the process may result in delays.**

Deloitte's Roadmap [Carve-Out Financial Statements](#) provides financial reporting, accounting, and auditing considerations to help companies navigate challenges related to preparing carve-out financial statements.

Contacts



Matt Himmelman

Audit & Assurance
Partner
Deloitte & Touche LLP
+1 714 436 7277
mhimmelman@deloitte.com



Doug Rand

Audit & Assurance
Partner
Deloitte & Touche LLP
+1 202 220 2754
dorand@deloitte.com

For information about Deloitte's service offerings related to carve-out financial statements, please contact:



Will Braeutigam

Audit & Assurance
Partner
Deloitte & Touche LLP
+1 713 982 3436
wbraeutigam@deloitte.com

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