FINANCIAL ACCOUNTING SERIES

FASB ACCOUNTING STANDARDS UPDATE

No. 2015-16
September 2015

Business Combinations (Topic 805)

Simplifying the Accounting for Measurement-Period Adjustments

An Amendment of the *FASB Accounting Standards Codification®*

Financial Accounting Standards Board

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Board is issuing this Update as part of its Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of generally accepted accounting principles (GAAP) for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements.

Stakeholders told the Board that the requirement to retrospectively apply adjustments made to provisional amounts recognized in a business combination adds cost and complexity to financial reporting but does not significantly improve the usefulness of the information provided to users.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized.

What Are the Main Provisions in This Update?

The amendments in this Update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date.

The amendments in this Update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.

How Do the Main Provisions Differ from Current Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

GAAP requires that during the measurement period, the acquirer retrospectively adjust the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill. Those adjustments are required when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The acquirer also must revise comparative information for prior periods presented in financial statements as needed, including revising depreciation, amortization, or other income effects as a result of changes made to provisional amounts.

To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the amendments in this Update eliminate the requirement to retrospectively account for those adjustments.

When Will the Amendments Be Effective and What Are the Transition Requirements?

For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not been issued.

For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not yet been made available for issuance.

The Board decided that the only disclosures required at transition should be the nature of and reason for the change in accounting principle. An entity should disclose that information in the first annual period of adoption and in the interim periods within the first annual period if there is a measurement-period adjustment during the first annual period in which the changes are effective.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–7. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Subtopic 805-10

2. Amend paragraphs 805-10-25-13 and 805-10-25-17, with a link to transition paragraph 805-10-65-3, as follows:

Business Combinations—Overall

Recognition

> The Measurement Period

805-10-25-13 If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, <u>in accordance with paragraph 805-10-25-17,</u> the acquirer shall ~~retrospectively~~ adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date.

805-10-25-14 During the measurement period, the acquirer also shall recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

805-10-25-15 The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure any of the following as of the acquisition date in accordance with the requirements of this Topic:

a. The **identifiable** assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree (see Subtopic 805-20)
b. The consideration transferred for the acquiree (or the other amount used in measuring **goodwill** in accordance with paragraphs 805-30-30-1 through 30-3)
c. In a business combination achieved in stages, the equity interest in the acquiree previously held by the acquirer (see paragraph 805-30-30-1(a)(3))
d. The resulting goodwill recognized in accordance with paragraph 805-30-30-1 or the gain on a bargain purchase recognized in accordance with paragraph 805-30-25-2.

805-10-25-16 The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in goodwill. However, new information obtained during the measurement period sometimes may result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquiree's facilities, part or all of which are covered by the acquiree's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

805-10-25-17 During the measurement period, the acquirer shall recognize adjustments to the provisional amounts ~~as if the accounting for the business combination had been completed at the acquisition date~~ with a corresponding adjustment to goodwill in the reporting period in which the adjustments to the provisional amounts are determined. Thus, the acquirer shall ~~revise comparative information for prior periods presented in financial statements as needed, including making any change~~ adjust its financial statements as needed, including recognizing in its current-period earnings the full effect of changes in depreciation, amortization, or other income ~~effects recognized in completing the initial accounting~~effects, by line item, if any, as a result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date. Paragraph 805-10-55-16 and Example 1 (see paragraph 805-10-55-27) provide additional guidance.

3. Amend paragraphs 805-10-55-16 and 805-10-55-27 through 55-29, with a link to transition paragraph 805-10-65-3, as follows:

Implementation Guidance and Illustrations

> Implementation Guidance

> > The Measurement Period

805-10-55-16 Paragraphs 805-10-25-14 through 25-19 and 805-10-30-2 through 30-3 discuss requirements related to the measurement period in a business combination. If the initial accounting for a business combination is incomplete at the end of the financial reporting period in which the combination occurs, paragraph 805-10-25-13 requires that the acquirer recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognizes adjustments to the provisional amounts needed to reflect new information obtained about facts and circumstances that existed as of the **acquisition date** that, if known, would have affected the measurement of the amounts recognized as of that date. Paragraph 805-10-25-17 requires the acquirer to recognize such adjustments with a corresponding adjustment to goodwill ~~as if the accounting for the business combination had been completed at the acquisition date~~ in the reporting period the adjustments are determined. ~~Measurement period adjustments~~ The effects of adjustments to provisional amounts to periods after the acquisition date are ~~not~~ included in the earnings of the adjustment period.

805-10-55-17 Example 1 (see paragraph 805-10-55-27) illustrates measurement period guidance.

> Illustrations

> > Example 1: Appraisal That Is Incomplete at the Reporting Date

805-10-55-27 This Example illustrates the measurement period guidance in paragraph 805-10-55-16. Acquirer acquires Target on September 30, 20X7. Acquirer seeks an independent appraisal for an item of property, plant, and equipment acquired in the combination, and the appraisal was not complete by the time Acquirer issued its financial statements for the year ended December 31, 20X7. In its 20X7 annual financial statements, Acquirer recognized a provisional fair value for the asset of $30,000. At the acquisition date, the item of property, plant, and equipment had a remaining useful life of five years. ~~Five~~Six months after the acquisition date, Acquirer received the independent appraisal, which estimated the asset's acquisition-date fair value as $40,000.

805-10-55-28 In its interim financial statements for the ~~year~~quarter ended ~~December 31,~~March 31, 20X8, Acquirer ~~retrospectively~~ adjusts the provisional amounts recorded and the related effects on that period's earnings~~the 20X7 prior-year information~~ as follows:

a. The carrying amount of property, plant, and equipment as of ~~December 31, 20X7,~~March 31, 20X8, is increased by ~~$9,500~~$9,000. That adjustment is measured as the fair value adjustment at the acquisition date of $10,000 less the additional depreciation that would have been recognized had the asset's fair value at the acquisition date been recognized from that date ~~($500 for 3~~($1,000 for 6 months' depreciation).
b. The carrying amount of goodwill as of ~~December 31, 20X7,~~March 31, 20X8, is decreased by $10,000.
c. Depreciation expense for ~~20X7~~the period ended March 31, 20X8, is increased by ~~$500~~$1,000 to reflect the effect on earnings as a result of the change to the provisional amount recognized.

805-10-55-29 In accordance with paragraph 805-20-50-4A ~~805-10-50-6~~, Acquirer discloses both of the following:

a. In its 20X7 financial statements, that the initial accounting for the business combination has not been completed because the appraisal of property, plant, and equipment has not yet been received
b. In its March 31, 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, Acquirer discloses that the ~~20X7 comparative information is retrospectively adjusted to~~ increase to the fair value of the item of property, plant, and equipment ~~at the acquisition date by $9,500, offset by~~was $10,000, with a corresponding decrease to goodwill. ~~goodwill of $10,000~~ Additionally, the change to the provisional amount resulted in ~~and~~ an increase in depreciation expense ~~of $500~~ and accumulated depreciation of $1,000, of which $500 relates to the previous quarter.

4. Add paragraph 805-10-65-3 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*

805-10-65-3 The following represents the transition and effective date information related to Accounting Standards Update No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments:*

a. For **public business entities**, the pending content that links to this paragraph shall be effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2015.

b. For all other entities, the pending content that links to this paragraph shall be effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.
c. Early application of the pending content that links to this paragraph is permitted for:
   1. Public business entities for reporting periods for which financial statements have not yet been issued
   2. All other entities for reporting periods for which financial statements have not yet been made available for issuance.
d. The pending content that links to this paragraph shall be applied prospectively to adjustments made to provisional amounts that occur after the effective date of the pending content that links to this paragraph.
e. An entity shall disclose the nature of and reason for the change in accounting principle in the first annual period after the entity's adoption date and in the interim periods within the first annual period of adoption if there is a measurement-period adjustment during the annual period in which the changes are effective.

Amendments to Subtopic 805-20

5. Amend paragraph 805-20-50-4A, with a link to transition paragraph 805-10-65-3, as follows:

Business Combinations—Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Disclosure

805-20-50-4A If the initial accounting for a business combination is incomplete (see paragraphs 805-10-25-13 through 25-14) for particular assets, liabilities, noncontrolling interests, or items of consideration and the amounts recognized in the financial statements for the business combination thus have been determined only provisionally, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively to meet the objective in paragraph 805-10-50-5:

a. The reasons why the initial accounting is incomplete
b. The assets, liabilities, equity interests, or items of consideration for which the initial accounting is incomplete
c. The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 805-10-25-17, including separately the amount of adjustment to current-period income statement line items relating to the income effects that would have been recognized in previous periods if the adjustment to

provisional amounts were recognized as of the acquisition date. Alternatively, an acquirer may present those amounts separately on the face of the income statement.

Amendments to Status Sections

6. Amend paragraph 805-10-00-1, by adding the following items to the table, as follows:

805-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Public Business Entity	Added	2015-16	09/25/2015
805-10-25-13	Amended	2015-16	09/25/2015
805-10-25-17	Amended	2015-16	09/25/2015
805-10-55-16	Amended	2015-16	09/25/2015
805-10-55-27 through 55-29	Amended	2015-16	09/25/2015
805-10-65-3	Added	2015-16	09/25/2015

7. Amend paragraph 805-20-00-1, by adding the following item to the table, as follows:

805-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
805-20-50-4A	Amended	2015-16	09/25/2015

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing this Update as part of its Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements.

Background

BC3. On March 18, 2015, the Board added a project to its agenda to simplify the accounting for adjustments made to provisional amounts recognized in a business combination. In May 2015, the Board issued a proposed Accounting Standards Update, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*, which proposed that an acquirer should recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The amendments proposed eliminating the requirement in Topic 805 that those adjustments be retrospectively applied as if the accounting had been completed at the acquisition date. The acquirer, instead, would make in its current-period financial statements the adjustment to the provisional amounts and, as needed, recognize the effect, by line item, of changes in depreciation, amortization, or other income effects in current-period earnings.

BC4. The amendments in the proposed Update also would require an entity to disclose the portion of the amount recorded in current-period earnings, by line item, that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date.

BC5. The primary objective of this project was to eliminate the retrospective requirement for provisional amounts recognized in business combinations. The project does not affect an entity's requirement to comply with Topic 250, Accounting Changes and Error Corrections.

BC6. The proposed Update was open for public comment for 45 days, and the Board received 30 comment letters. Overall, respondents to the proposed Update expressed support for the proposed amendments, citing that the amendments would reduce the cost and complexity while maintaining the usefulness of the information. However, some respondents stated that if the proposed incremental disclosure requirements were retained, the intended cost savings would be eliminated.

Recognition, Presentation, and Disclosure

BC7. The Board considered whether it should require an acquirer to prospectively account for any change in depreciation, amortization, or other income effects as a result of an adjustment to provisional amounts, rather than require the effect of the change, calculated as if the accounting had been completed at the acquisition date, to be recognized through the income statement in the period the adjustment to the provisional amount is determined. The Board determined that recognizing the full effect of the adjustment would be more effective in highlighting the effect that revisions to provisional amounts have on earnings in the period the adjustment is determined. Additionally, an entity would be required to disclose the nature and amount of measurement-period adjustments recognized in the current period, including the amount of adjustment to current-period income statement line items relating to the income effects that would have been recognized in previous periods if the adjustment to provisional amounts were recognized as of the acquisition date.

BC8. The Board considered in redeliberations whether an entity's cost savings from recognizing adjustments to provisional amounts in the current period, rather than retrospectively, would be offset by the incremental disclosure requirements. The Board concluded that the amendments in this Update mainly achieve cost savings through the elimination of costs associated with retrospective application to specific and sometimes multiple interim periods; therefore, the incremental disclosures of the adjustment to prior periods will not eliminate that cost savings and also will provide useful information to users when assessing the trends in affected income statement line items.

BC9. Some Board members were concerned that reflecting all of the income statement effect of the change to the provisional amount on depreciation, amortization, or other income statement effects in the current reporting period would distort financial statement results, when some portion of that amount would have been reflected in a previous reporting period if the acquisition accounting had been complete as of the acquisition date. The Board considered whether it would be more beneficial to financial statement users to recognize the effect on the income statement of the change to the provisional amount that would have been recorded in a previous reporting period through an adjustment to retained earnings or to separately reflect on the face of the income statement the effects on line items of the amounts that would have been recorded in a previous reporting period. The Board concluded that recording the portion of the adjustment that would have been related to a prior period through retained earnings could increase complexity. However, the Board decided to require preparers to either disclose the information or present it separately on the face of the income statement.

BC10. The Board considered whether it would be useful to provide further clarification to the amendments in paragraph 805-10-25-17 related to when an adjustment to provisional amounts should be recognized. For example, one commenter questioned the application of the amendments when adjustments to provisional amounts are identified after the end of a reporting period but before the financial statements for that period are issued or are available to be issued. The Board concluded that the proposed amendments do not address this issue. The assessment in the above example would be made on the basis of current guidance indicating when those adjustments are recorded.

BC11. The Board considered the significance of the amendments in terms of comparability with the requirements under International Financial Reporting Standards (IFRS). While GAAP is aligned with IFRS requirements, the Board noted that because of differences in reporting requirements, that is, quarterly reporting requirements for U.S. publicly traded entities as opposed to semiannual reporting in certain other jurisdictions, the need to revise previously issued financial statements to retrospectively account for adjustments to provisional amounts during the measurement period likely is not as prevalent under IFRS. Consequently, the cost of complying with the converged guidance may be greater for GAAP preparers than others. Therefore, the Board concluded that the benefits of convergence do not justify the costs.

Effective Date and Transition

BC12. The Board concluded that the amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur during the measurement period after the effective date of this Update because the benefits of a retrospective application would not justify its costs and would be inconsistent with the objective of these amendments.

BC13. The Board concluded that the only disclosure required at transition should be the nature of and reason for the change in accounting principle. An entity should disclose that information in the first annual period of adoption and in the interim periods within the first annual period if there is a measurement-period adjustment during the first annual period in which the changes are effective.

BC14. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.

BC15. The Board decided to allow all entities to early adopt the amendments in this Update because the amendments represent an improvement to GAAP that should reduce costs and complexity for preparers that have recently completed a business combination. Public business entities may early apply the guidance in the amendments for reporting periods for which financial statements have not been issued. All other entities may early apply the guidance for reporting periods for which financial statements have not yet been made available for issuance.

Benefits and Costs

BC16. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC17. The Board anticipates that the amendments in this Update will eliminate costs related to retrospectively adjusting financial information of prior periods for the effects of changes to provisional amounts determined during the measurement period. The Board does not expect the amendments to significantly reduce the relevance of the information provided for provisional amounts recognized in a business combination because the effects of changes to provisional amounts will be highlighted in the income statement or note disclosures.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those changes, which will be incorporated into the proposed 2016 Taxonomy, are available for public comment through ASU Taxonomy Changes provided at www.fasb.org, and finalized as part of the annual release process starting in September 2015.