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Heads Up

Piece of Cake

FASB Proposes to Simplify the Accounting for Measurement-Period Adjustments

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Background

On May 21, 2015, the FASB issued a proposed Accounting Standards Update (ASU), *Simplifying the Accounting for Measurement-Period Adjustments*, as part of its simplification initiative (i.e., the Board's effort to reduce the cost and complexity of certain aspects of U.S. GAAP). The proposed ASU is in response to stakeholder feedback that restating prior periods to reflect "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."

Under ASC 805-10-25-17,[1] if an acquirer identifies an adjustment that must be made to provisional amounts during the measurement period, the acquirer must recognize the adjustment as if the accounting for the business combination had been completed as of the acquisition date. Thus, the acquirer must revise comparative information for prior periods (i.e., via retrospective adjustment), including making any change in depreciation, amortization, or other income effects recognized in completing the initial accounting.

> **Editor's Note:** Because of the complexity of completing certain fair value measurements, or because an acquisition may occur in close proximity to the acquirer's next reporting date, the assignment of amounts to the consideration transferred, the assets acquired, the liabilities assumed, and any noncontrolling interests may not be complete by the acquirer's next reporting date. Therefore, the acquirer must report provisional amounts on the basis of best estimates of information available as of the reporting date.

Key Provisions of the Proposed ASU

Under the proposal, an acquirer would no longer be required to retrospectively reflect adjustments to provisional amounts during the measurement period as if they were recognized as of the acquisition date. Instead, the acquirer would record the effect of the change to the provisional amounts during the measurement period in the financial reporting period in which the adjustment is identified. That is,

[1] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

during the measurement period, the acquirer would recognize adjustments to the provisional amounts with a corresponding adjustment to goodwill in the reporting period in which the adjustments to the provisional amounts are determined. Consequently, under the proposed guidance an acquirer would adjust provisional amounts, as needed, in its financial statements until the measurement period is closed, which would include recognizing in current-period earnings the effect of changes in depreciation, amortization, or other income as a result of the change to the provisional amounts calculated as if the accounting had been completed as of the acquisition date. The appendix below illustrates the application of accounting for measurement-period adjustments under the proposed guidance.

Editor's Note: In the proposed ASU's Basis for Conclusions, the FASB observed that the quality of provisional amounts has increased since the adoption of Statement 141(R)[2] and that the effect on the financial statements of adjustments to provisional amounts is no longer as significant. For example, entities today often do not retrospectively adjust prior periods, and they incur costs having to justify the insignificance of these adjustments to their auditor. As a result, the Board concluded that retrospectively adjusting prior periods does not outweigh its benefit to users.

Next Steps, Transition, and Effective Date

The changes would apply prospectively to adjustments to provisional amounts that are identified after the effective date of the guidance and that are within the measurement period. An entity would also be required to disclose the nature of and reason for the change in accounting in the first annual period of adoption and in the interim periods within the first annual period.

An effective date for the final standard will be determined after the Board considers stakeholder feedback on the proposed amendments. Comments on the proposed ASU are due by July 6, 2015.

[2] FASB Statement No. 141(R), *Business Combinations* (superseded).

Appendix

The example below was reproduced from the proposed ASU and illustrates how entities would apply the new guidance on accounting for measurement-period adjustments.

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. 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 quarter ended March 31, 20X8, Acquirer adjusts the provisional amounts recorded and the related effects on earnings as follows:

a. The carrying amount of property, plant, and equipment as of March 31, 20X8, is increased by $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 ($1,000 for 6 months' depreciation).

b. The carrying amount of goodwill as of March 31, 20X8, is decreased by $10,000.

c. Depreciation expense for the period ended March 31, 20X8, is increased by $1,000 to reflect the effect on earnings as a result of the change to the provisional amount recognized.

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