

AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO FLASH REPORT

FASB

SUBJECT

FASB ISSUES EARNINGS PER UNIT GUIDANCE FOR MASTER LIMITED PARTNERSHIP DROPDOWN TRANSACTIONS

SUMMARY

The FASB has issued an ASU to clarify that for purposes of calculating historical earnings per unit under the two-class method for a master limited partnership, the earnings of a transferred set of net assets before the date of a dropdown transaction should be allocated entirely to the general partner. That is, none of the earnings are retroactively allocated to the limited partners. The new standard takes effect in 2016 and is available [here](#).

DETAILS:

Main Provisions:

ASC Topic 260¹ provides guidance on applying the two-class method of calculating earnings per unit for master limited partnerships (MLPs); the two-class method is required because the general partner, limited partners, and incentive distribution rights holders each participate differently in the distribution of available cash in accordance with the contractual rights of the partnership agreement.

A “dropdown” transaction occurs when a general partner transfers net assets to the MLP and is accounted for as a transaction between entities under common control. The statements of operations of the MLP are adjusted retrospectively to reflect the dropdown transaction as if it occurred on the earliest date during which the entities were under common control.

ASU 2015-06² clarifies that for purposes of calculating historical earnings per unit, the allocation of the earnings (losses) of a transferred business before the date of a dropdown transaction should be allocated entirely to the general partner interest. As a result, the previously reported earnings per unit of the limited partners (typically the earnings per unit measure presented in the financial statements) should not change due to the dropdown transaction. The clarification is intended to reduce diversity in practice regarding treatment of such transactions, as alternatively, some entities had allocated earnings to the



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¹ Earnings Per Share

² Effects on Historical Earnings per Unit of Master Limited Partnership Dropdown Transactions

limited partners and incentive distribution rights holders on a hypothetical basis in periods prior to the dropdown, in a manner consistent with their post-dropdown contractual rights.

Qualitative disclosures about how the rights to the earnings (losses) differ before and after the dropdown transaction occurs for purposes of computing earnings per unit under the two-class method also are required.

Effective Date and Transition:

The amendments are effective retrospectively for all affected entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted.

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