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AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO **FLASH** REPORT

FASB

SUBJECT

FASB ISSUES ASU TO SIMPLIFY THE ACCOUNTING FOR MEASUREMENT-PERIOD ADJUSTMENTS

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SUMMARY

The FASB recently issued ASU 2015-16 as part of its Simplification Initiative. The amendments require adjustments to provisional amounts that are identified during the measurement period, including the cumulative effect of changes in depreciation, amortization, or other income effects to be recognized in the current-period financial statements. Prior periods should no longer be adjusted. The new standard takes effect in 2016 for public companies and is available here. Early adoption is permitted.

DETAILS

Background

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the acquisition occurs, an acquirer should report provisional amounts related to items for which the accounting is incomplete. During the measurement period, the provisional amounts are then adjusted 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. The measurement period ends as soon as the acquirer receives the information it was seeking or learns that more information is not obtainable. However, the measurement period cannot exceed one year from the acquisition date.

Prior U.S. GAAP required that measurement-period adjustments be retrospectively applied as if the accounting had been completed at the acquisition date. This required adjusting comparative information for prior periods, including any changes in depreciation, amortization, or other income effects. For example, in the 20X4 financial statements, the initial accounting for a business combination was incomplete because the appraisal of fixed assets had not been received. In the March 31, 20X5 financial statements, a measurement period adjustment would be recognized by disclosing that the 20X4 comparative information was retrospectively adjusted to increase the carrying amount of fixed assets by $9,500, offset by a corresponding decrease to goodwill of $10,000 and an increase in depreciation expense of $500. That retrospective adjustment reflects the increased fair value of the fixed assets by $10,000 at the acquisition date, less the additional depreciation recognized from that date.[1]

Main Provisions

Under ASU 2015-16,[2] adjustments to provisional amounts that are identified during the measurement period should be recognized in the reporting period in which the adjustment amounts are determined. This includes any related impact on earnings of changes in depreciation, amortization, or other income effects, calculated as if the accounting had been completed at the acquisition date. Continuing with the example above, the March 31, 20X5 financial statements would reflect the measurement period adjustment in the current period by increasing the carrying amount of the fixed assets by $9,000. Depreciation expense would also be increased by $1,000, including $500 related to the prior period.[3] That is, depreciation should reflect the cumulative effect of the measurement period adjustment, including amounts relating to the current period.

In addition, the amendments require an entity to disclose (either on the face of the income statement or in the notes) the nature and amount of measurement-period adjustments recognized in the current period by income statement line items that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. To illustrate, the March 31, 20X5 financial statements would separately disclose (or present) the $500 of depreciation related to the 20X4 period in the prior example.

Effective Date and Transition

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

The amendments in this Update should be applied prospectively to measurement-period adjustments that occur after the effective date of this Update.

Only the nature and reason for the change in accounting principle is required to be disclosed in the first interim and annual period of adoption.

BDO COMMENT

Reporting entities that have recently completed a business combination but for which the measurement period is still open may wish to consider early adopting the new standard to take advantage of its intended cost-savings.

[1] Adapted from paragraphs 805-10-55-27 through 55-29 prior to the amendments in ASU 2015-16.
[2] *Business Combination (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*
[3] Adapted from paragraphs 805-10-55-27 through 55-29 after the amendments in ASU 2015-16.