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Accounting Journal Entry
October 17, 2016

FASB Redeliberates Proposed ASU on Derecognition and Partial Sales of Nonfinancial Assets

On June 6, 2016, the FASB issued a proposed ASU[1] that would clarify the scope of ASC 610-20[2] and accounting for partial sales of nonfinancial assets to conform the derecognition guidance of nonfinancial assets with the model for revenue transactions in the new revenue standard (ASC 606). On October 10, 2016, the Board met to discuss the feedback received in response to the questions for respondents included in the proposed ASU.[3]

Scope

In response to the feedback received, the FASB discussed the scope of the proposed ASU to determine whether there are other issues that should be included in the final ASU.

The Board decided to clarify that the guidance in ASC 610-20 does **not** apply to transactions between entities under common control by including a scope exception in the final ASU. Had the Board allowed such transactions to apply the guidance in ASC 610-20 to transactions between entities under common control, the entity that transferred the nonfinancial or in-substance nonfinancial asset would measure such transactions at fair value (and recognize a gain or loss), which was not the Board's intent.

In response to stakeholder questions about whether the reporting entity in a non-cash asset acquisition should focus on the assets surrendered in the exchange (and apply ASC 610-20) or on the assets received in exchange (thereby applying ASC 805-50), the Board decided to clarify that a reporting entity should focus on the assets surrendered and apply guidance in ASC 610-20.

The Board affirmed its decision not to address the sale of an undivided interest in ASC 610-20. The Board asked its staff to address the sale of an undivided interest as part of phase 3 of the project or in its research project on collaborative arrangements.

Overall Model

Under the proposed ASU, if a group of assets that does not meet the definition of in-substance nonfinancial assets is transferred in the form of a legal entity, the transaction is excluded from the scope of ASC 610-20 and should be accounted for under the consolidation guidance in ASC 810. Although some stakeholders indicated that such transactions should be accounted for under the "look-through" approach (i.e., in a manner similar to transactions in which the nonfinancial assets and financial assets are transferred outside of a legal entity), the Board decided not to amend the approach outlined in the proposed ASU.

Transition

In a manner consistent with the transition to the new revenue standard, the proposed ASU allows an entity to adopt the amendments using a full retrospective or a modified retrospective approach. In addition, an entity could elect a different approach to adopt ASC 610-20 than it uses to adopt ASC 606 (e.g., an entity may use the modified retrospective approach to adopt ASC 610-20 and the full retrospective approach to adopt ASC 606). The Board decided to retain the transition requirements outlined in the proposed ASU with the clarification that the amendments should be applied using the revised definition of a business (as amended by the proposed ASU[4] on clarifying the definition of a business that is expected to be finalized by the Board in the near term).

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[1] FASB Proposed Accounting Standards Update, *Other Income — Gains and Losses From the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.*

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

[3] For additional information about the proposed ASU, including questions for respondents, see Deloitte's June 14, 2016, *Heads Up*.

[4] FASB Proposed Accounting Standards Update, *Clarifying the Definition of a Business* (issued on November 23, 2015).

Effective Date, Early Adoption, and Expected Issuance of the ASU

Under the proposed ASU, the effective date of the new guidance would be aligned with the requirements in the new revenue standard as amended by ASU 2015-14,[5] which delays the effective date of the new revenue standard by one year[6] and permits early adoption on a limited basis. The Board affirmed the proposed effective dates with the clarification that if the entity decides to early adopt amendments to the guidance in ASC 610-20, the entity is also required to early adopt guidance in ASC 606 (and vice versa).

The Board asked its staff to perform an outreach to obtain additional input on the operability of the transition requirement and effective date.

The final ASU is expected to be issued by the end of 2016.

[5] FASB Accounting Standards Update No. 2015-14, *Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date*.

[6] For public business entities, the standard is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2017. For nonpublic entities, the standard is effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019.