

Heads Up

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FASB Simplifies the Accounting for Measurement-Period Adjustments

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Background

On September 25, 2015, the FASB issued [ASU 2015-16](#)¹ as part of its simplification initiative.² The 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.

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. In such situations, the acquirer must report provisional amounts on the basis of best estimates of information available as of the reporting date. Under previous guidance, when an acquirer identified an adjustment to provisional amounts during the measurement period, the acquirer was required to revise comparative information for prior periods, including making any change in depreciation, amortization, or other income effects recognized in completing the initial accounting, as if the accounting for the business combination had been completed as of the acquisition date.

Key Provisions of the ASU

Under the ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation or 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 as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively.

The ASU also requires that the acquirer 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. The [appendix](#) below illustrates the application of accounting for measurement-period adjustments under the ASU.

¹ FASB Accounting Standards Update No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*.

² The FASB's simplification initiative is intended to reduce the cost and complexity of certain aspects of U.S. GAAP while improving or maintaining the usefulness of the information reported to investors.

Editor's Note: Previously, the accounting for measurement-period adjustments was aligned under U.S. GAAP and IFRSs. However, because of differences in reporting requirements (i.e., 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 is most likely not as prevalent under IFRSs. Consequently, because the cost of complying with converged guidance may be greater for U.S. GAAP preparers than others, the FASB concluded that the benefits of convergence do not justify the costs.

Effective Date and Transition

For public business entities, the ASU is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017.

The ASU must be applied prospectively to adjustments to provisional amounts that occur after the effective date. Early application is permitted for financial statements that have not been issued.

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.

Appendix

The example below was reproduced from the ASU and illustrates how entities will 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 that period's 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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