Accounting Relief for Business Acquisitions with Measurement Period Adjustments

The Financial Accounting Standards Board (FASB) has issued its sixth standard as part of its simplification initiative. Simplification standards are designed to improve areas of generally accepted accounting principles (GAAP), for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements.

Accounting Standards Update 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement Period Adjustments*, simplifies accounting for business acquisitions with measurement period adjustments. The update requires companies to recognize adjustments to provisional amounts during the reporting period in which it determines the adjustment amount. The update also requires the acquirer to record, in the same period's financial statements, any effect on earnings due to changes in depreciation, amortization or other income effects resulting from the change to provisional amounts; this effect must be calculated as if the accounting had been completed at the acquisition date.

An entity has the option to present separately on the face of the financial statements or disclose in the notes the portion of the amount recorded in current-period earnings by line item that it would have recorded in previous reporting periods if it had recognized adjustments to the provisional amounts as of the acquisition date.

The new standard applies only when an entity has reported provisional amounts for items in a business combination in accordance with Accounting Standards Codification 805. Provisional amounts are recorded when the initial accounting for the business combination is incomplete by the end of the reporting period in which the acquisition occurs. The acquirer adjusts these amounts during the measurement period as it obtains new information about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement amounts initially recognized or would have resulted in the recognition of additional assets or liabilities. The measurement period ends when the acquirer receives the information it was seeking, *e.g.*, an asset appraisal not complete as of the acquisition date. The measurement period cannot exceed one year from the date of acquisition.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. All other entities must apply the new requirements for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Entities should apply the amendments prospectively to adjustments to provisional amounts occurring after the effective date. Early adoption is permitted for financial statements not yet issued, which may be beneficial for those entities with open measurement periods.

Summary of Changes	
Current GAAP	Amendments
Adjustment to Provisional Amounts – The acquirer recognizes adjustments to provisional amounts identified during the measurement period in the period it originally recorded the estimates, with a corresponding adjustment to goodwill	**Adjustment to Provisional Amounts** – The acquirer recognizes adjustments to provisional amounts identified during the measurement period in the reporting period the adjustments amounts are determined, with a corresponding adjustment to goodwill
Effect on Earnings – In the same period, the acquirer records any effect on earnings of changes in depreciation, amortization or other income effects resulting from the change to provisional amounts, calculated as if it had completed the accounting at the acquisition date; this entails revision of comparative information on the income statement and balance sheet for any prior periods affected	**Effect on Earnings** – In the same period, the acquirer records any effects on earnings of changes in depreciation, amortization or other income effects resulting from the change to provisional amounts, calculated as if it had completed the accounting at the acquisition date; this includes the effect on earnings of any amounts the acquirer would have recorded in previous periods if the accounting had been completed at the acquisition date
Disclosure – The acquirer must disclose the amounts and reasons for adjustments to the provisional amounts	**Disclosure** – The acquirer must disclose the amounts and reasons for adjustments to the provisional amounts; the acquirer must also disclose, by line item, the amount of the adjustment reflected in the current-period income statement that would have been recognized in previous periods if the adjustment to provisional amounts had been recognized as of the acquisition date; alternatively, an acquirer may present the amounts separately on the face of the income statement

Contributor

Connie Spinelli
Director
303.861.4545
cspinelli@bkd.com