

New Business Definition

On January 5, 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The definition of a business is significant because it determines what accounting model to use on the acquisition and disposal of a business or a group of nonfinancial assets. The new standard makes several changes narrowing the current definition. Under the new guidance, fewer transactions will be recorded as business acquisitions. These amendments will have the greatest effect on real estate transactions and loan portfolio acquisitions.

Early adoption is permitted before the standard’s issuance or effective date for transactions that have not been reported in financial statements that have been issued or made available for issuance.

For 2016 financial statements not yet issued, consider the key differences from current guidance noted in the table below. Watch for BKD’s comprehensive white paper on this topic to determine if early adoption makes sense for your organization.

Business Definition	
Current	New
Requires inputs and processes	Requires inputs and one or more substantive processes that together significantly contribute to the ability to create output
Outputs broadly defined as ability to provide a return (dividends, lower costs, other economic benefit)	Outputs defined as goods or services provided to customers, investment income (such as interest or dividends) or other revenues
Does not matter if all value is assigned to a single asset	New threshold—if substantially all of the fair value transferred relates to a single asset or group of similar identifiable assets, the set is not considered a business

The updated definition also is necessary to clarify the scope of sales of nonfinancial assets with noncustomers under the new revenue recognition standard (ASU 2014-09), which removes existing industry- or transaction-specific real estate guidance. To determine what derecognition model to apply in sales transactions with noncustomers, an entity must determine whether a real estate transaction is a sale of a business or nonfinancial asset.

Until ASU 2014-09 is effective¹, derecognition of real estate should be consistently accounted for, regardless of whether the real estate is an asset or business. In January 2017, FASB is expected to issue an ASU clarifying the accounting for partial sales of nonfinancial assets.

¹ Public business entities, not-for-profit entities that have issued—or are conduit bond obligors for—securities that are traded, listed or quoted on an exchange or an over-the-counter market and employee benefit plans that file or furnish financial statements to the U.S. Securities and Exchange Commission are required to adopt ASU 2014-09 for annual reporting periods beginning after December 15, 2017, including interim reporting periods. All other entities are required to adopt for annual reporting periods beginning after December 15, 2018, and interim reporting periods beginning after December 15, 2019. Early adoption for all entities is permitted for annual periods beginning after December 15, 2016.

Transition

The update's amendments should be prospectively applied on or after the effective date. No disclosures are required at transition.

Effective Date

Public business entities should apply these amendments to annual periods beginning after December 15, 2017, including interim periods within those periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019.

Early Adoption

Early application is permitted for transactions occurring before the amendment's issuance or effective date, but only if the transaction has not been reported in financial statements that have been issued or made available for issuance. Transactions to be considered for early adoption include acquisitions, derecognition of a group of assets or deconsolidation of a subsidiary.

Early adoption of ASU 2017-01 is not dependent on the early adoption of the forthcoming standard on partial sales of nonfinancial assets.

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