

*Proposed Accounting Standards Update*

Issued: May 21, 2015  
Comments Due: July 6, 2015

**Business Combinations (Topic 805)**

**Simplifying the Accounting for  
Measurement-Period Adjustments**

The Board issued this Exposure Draft to solicit public comment on proposed changes to Topic 805 of the *FASB Accounting Standards Codification*®. Individuals can submit comments in one of three ways: using the electronic feedback form on the FASB website, emailing written comments to [director@fasb.org](mailto:director@fasb.org), or sending a letter to “Technical Director, File Reference No. 2015-260, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

The *FASB Accounting Standards Codification*<sup>®</sup> is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

### **Notice to Recipients of This Exposure Draft of a Proposed Accounting Standards Update**

The Board invites comments on all matters in this Exposure Draft and is requesting comments by July 6, 2015. Interested parties may submit comments in one of three ways:

- Using the electronic feedback form available on the FASB website at [Exposure Documents Open for Comment](#)
- Emailing a written letter to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2015-260
- Sending written comments to “Technical Director, File Reference No. 2015-260, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.”

Do not send responses by fax.

All comments received are part of the FASB’s public file. The FASB will make all comments publicly available by posting them to the online public reference room portion of its website.

An electronic copy of this Exposure Draft is available on the FASB’s website.

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Proposed Accounting Standards Update

Business Combinations (Topic 805)

Simplifying the Accounting for Measurement-Period  
Adjustments

May 21, 2015

Comment Deadline: July 6, 2015

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# Summary and Questions for Respondents

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## Why Is the FASB Issuing This Proposed Accounting Standards Update (Update) and What Are the Main Provisions?

The Board is issuing this proposed Update as part of its Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and 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.

Stakeholders have told the Board that the requirement to retrospectively apply 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.

Under current guidance, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, when new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts initially recognized or would have resulted in the recognition of other assets or liabilities, the acquirer must retrospectively adjust the provisional amounts recognized at the acquisition date to reflect that information with a corresponding adjustment to goodwill. The acquirer also must revise comparative information for prior periods presented in financial statements as needed, including making changes to depreciation, amortization, or other income effects as a result of changes made to provisional amounts.

To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the proposed amendments would require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer also would record, in the same period's financial statements, the effect on earnings of changes in depreciation, 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 at the acquisition date.

## What Are the Transition Requirements and When Would the Amendments Be Effective?

The amendments in this proposed Update would be applied prospectively to adjustments to provisional amounts that are identified after the effective date of the proposed amendments and that are within the measurement period.

Upon transition, an entity would be required to disclose the nature of, and reason for, the change in accounting principle. An entity would provide that disclosure in the first annual period of adoption and in the interim periods within the first annual period.

The effective date will be determined after the Board considers stakeholder feedback on the proposed amendments.

## Questions for Respondents

The Board invites individuals and organizations to comment on all matters in this proposed Update, particularly on the issues and questions below. Comments are requested from those who agree with the proposed guidance as well as from those who do not agree. Comments are most helpful if they identify and clearly explain the issue or question to which they relate. Those who disagree with the proposed guidance are asked to describe their suggested alternatives, supported by specific reasoning.

**Question 1:** Should adjustments to provisional amounts and the corresponding adjustment to goodwill that are identified during the measurement period be recognized in the reporting period in which the adjustment amount is determined? Why or why not?

**Question 2:** If adjustments to provisional amounts as of the acquisition date would have affected earnings in periods subsequent to the initial accounting for the business combination, should the effect on earnings, in periods prior to the adjustment period, of changes in depreciation, amortization, or other income effects be recognized in the income statement in the reporting period in which the adjustment to the provisional amount is determined? Why or why not?

**Question 3:** Should the proposed guidance be applied prospectively to adjustments made to provisional amounts that are identified after the effective date and that are within the measurement period? Why or why not?

**Question 4:** How much time will be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Should the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

# Amendments to the *FASB Accounting Standards Codification*<sup>®</sup>

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## Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–5. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

## Amendments to Subtopic 805-10

2. Amend paragraphs 805-10-25-13 and 805-10-25-17, with a link to transition paragraph 805-10-65-3, as follows:

### **Business Combinations—Overall**

#### **Recognition**

##### **> The Measurement Period**

**805-10-25-13** If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall ~~retrospectively~~ adjust the provisional amounts recognized at the acquisition date 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.

**805-10-25-14** During the measurement period, the acquirer also shall recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

**805-10-25-15** The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure any of the following as of the acquisition date in accordance with the requirements of this Topic:

- a. The **identifiable** assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree (see Subtopic 805-20)
- b. The consideration transferred for the acquiree (or the other amount used in measuring **goodwill** in accordance with paragraphs 805-30-30-1 through 30-3)
- c. In a business combination achieved in stages, the equity interest in the acquiree previously held by the acquirer (see paragraph 805-30-30-1(a)(3))
- d. The resulting goodwill recognized in accordance with paragraph 805-30-30-1 or the gain on a bargain purchase recognized in accordance with paragraph 805-30-25-2.

**805-10-25-16** The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in goodwill. However, new information obtained during the measurement period sometimes may result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquiree's facilities, part or all of which are covered by the acquiree's liability insurance policy. If the acquirer obtains new information during the measurement period about the acquisition-date fair value of that liability, the adjustment to goodwill resulting from a change to the provisional amount recognized for the liability would be offset (in whole or in part) by a corresponding adjustment to goodwill resulting from a change to the provisional amount recognized for the claim receivable from the insurer.

**805-10-25-17** During the measurement period, the acquirer shall recognize adjustments to the provisional amounts ~~as if the accounting for the business combination had been completed at the acquisition date~~ with a corresponding adjustment to goodwill in the reporting period in which the adjustments to the provisional amounts are determined. Thus, the acquirer shall ~~revise comparative information for prior periods presented in financial statements as needed, including making any change adjust its financial statements as needed, including recognizing in its current-period earnings, the effect of changes in depreciation, amortization, or other income effects recognized in completing the initial accounting effects, by line item if any, as a result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date.~~ Paragraph 805-10-55-16 and Example 1 (see paragraph 805-10-55-27) provide additional guidance.

3. Amend paragraph 805-10-50-6, with a link to transition paragraph 805-10-65-3, as follows:

## **Business Combinations—Overall**

### **Disclosure**

#### **> The Financial Effects of Adjustments That Relate to Business Combinations That Occurred in the Current or Previous Reporting Periods**

**805-10-50-6** If the initial accounting for a business combination is incomplete (see paragraphs 805-10-25-13 through 25-14) for particular assets, liabilities, noncontrolling interests, or items of consideration and the amounts recognized in the financial statements for the business combination thus have been determined only provisionally, the acquirer shall disclose the following information for each material business combination or in the aggregate for individually immaterial business combinations that are material collectively to meet the objective in preceding paragraph:

- a. The reasons why the initial accounting is incomplete
  - b. The assets, liabilities, equity interests, or items of consideration for which the initial accounting is incomplete
  - c. The nature and amount of any measurement period adjustments recognized during the reporting period in accordance with paragraph 805-10-25-17, including the amount of adjustment to current period income statement line items relating to the income effects that would have been recognized in previous periods if the adjustment to provisional amounts were recognized as of the acquisition date.
4. Amend paragraphs 805-10-55-16 and 805-10-55-27 through 55-29, with a link to transition paragraph 805-10-65-3, as follows:

## **Implementation Guidance and Illustrations**

### **> Implementation Guidance**

#### **>> The Measurement Period**

**805-10-55-16** Paragraphs 805-10-25-14 through 25-19 and 805-10-30-2 through 30-3 discuss requirements related to the measurement period in a business combination. If the initial accounting for a business combination is incomplete at the end of the financial reporting period in which the combination occurs, paragraph 805-10-25-13 requires that the acquirer recognize in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer recognizes

adjustments to the provisional amounts needed 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. Paragraph 805-10-25-17 requires the acquirer to recognize such adjustments with a corresponding adjustment to goodwill as if the accounting for the business combination had been completed at the acquisition date. in the reporting period the adjustments are determined. Measurement period ~~The effects of adjustments to provisional amounts to periods after the acquisition date adjustments are not included in earnings of the adjustment period.~~

**805-10-55-17** Example 1 (see paragraph 805-10-55-27) illustrates measurement period guidance.

### > Illustrations

#### > > 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. ~~Five~~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 year/quarter ended ~~December 31, 20X7, March 31, 20X8~~, Acquirer ~~retrospectively~~ adjusts the provisional amounts recorded and the related effects on earnings ~~the 20X7 prior year information~~ as follows:

- a. The carrying amount of property, plant, and equipment as of ~~December 31, 20X7, March 31, 20X8~~, is increased by ~~\$9,500~~\$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 (~~\$500 for 3~~\$1,000 for 6 months' depreciation).
- b. The carrying amount of goodwill as of ~~December 31, 20X7, March 31, 20X8~~, is decreased by \$10,000.
- c. Depreciation expense for ~~20X7~~ the period ended March 31, 20X8, is increased by ~~\$500~~\$1,000 to reflect the effect on earnings as a result of the change to the provisional amount recognized.

**805-10-55-29** In accordance with paragraph 805-10-50-6, Acquirer discloses both of the following:

- a. In its 20X7 financial statements, that the initial accounting for the business combination has not been completed because the appraisal of property, plant, and equipment has not yet been received
- b. In its 20X8 financial statements, the amounts and explanations of the adjustments to the provisional values recognized during the current reporting period. Therefore, Acquirer discloses that the ~~20X7 comparative information is retrospectively adjusted to increase to~~ the fair value of the item of property, plant, and equipment ~~at the acquisition date by \$9,500, offset by~~ was \$10,000, with a corresponding decrease to goodwill of \$10,000. Additionally, the change to the provisional amount resulted in and an increase in depreciation expense and accumulated depreciation of \$500~~\$1,000~~, of which \$500 relates to a previous reporting period.

5. Add paragraph 805-10-65-3 and its related heading as follows:

**> Transition Related to Accounting Standards Update No. 2015-XX, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments**

**805-10-65-3** The following represents the transition and effective date information related to Accounting Standards Update No. 2015-XX, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*:

- a. The pending content that links to this paragraph shall be effective on [date to be inserted after exposure].
- b. The pending content that links to this paragraph shall be applied prospectively to adjustments to provisional amounts that occur after the effective date.
- c. In the first annual period after the entity's adoption date and in the interim periods within the first annual period of adoption, an entity shall disclose the nature of and reason for the change in accounting principle.

*The amendments in this proposed Update were approved for publication by the unanimous vote of the seven members of the Financial Accounting Standards Board:*

Russell G. Golden, *Chairman*  
James L. Kroeker, *Vice Chairman*  
Daryl E. Buck  
Thomas J. Linsmeier  
R. Harold Schroeder  
Marc A. Siegel  
Lawrence W. Smith

# Background Information and Basis for Conclusions

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## Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this proposed Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

BC2. The Board is issuing this proposed Update as part of its Simplification Initiative. The objective of the Simplification Initiative is to identify, evaluate, and improve areas of GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements.

## Recognition

BC3. To simplify the accounting for adjustments made to provisional amounts recognized in a business combination, the proposed amendments would require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer would then recognize in its current period financial statements as needed, the effect of changes in depreciation, amortization, or other income effects, in current period earnings, by line item, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date.

BC4. The proposed amendments would eliminate the guidance in Topic 805 that requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination during the measurement period. Therefore, the acquirer would no longer be required to revise comparative information for prior periods presented in financial statements for depreciation, amortization, or other income effects as a result of changes to provisional amounts.

BC5. The Board considered whether the benefits to users of recognizing adjustments to provisional amounts, as if the accounting for the business combination had been completed at the acquisition date, would justify the costs of revising previously issued financial statements. Stakeholders noted that the quality of provisional estimates has improved since the issuance of FASB Statement No. 141 (Revised 2007), *Business Combinations*. In many instances,

revisions to provisional amounts do not have a significant effect on financial statements and, as such, retrospective application does not significantly improve comparative period information. Stakeholders also noted that in instances in which the effect of the changes is not significant, entities do not adjust the comparative financial information. However, those entities must incur costs to provide evidence to their auditors that the effects of changes to the provisional amounts are not material to their financial statements. One Board member noted a potential unintended consequence of removing retrospective application may be that entities would not be as diligent about finalizing the initial accounting for a business combination as entities have been under existing guidance, therefore potentially increasing the significance of the adjustments to provisional amounts. However, the Board concluded that the benefits from requiring retrospective application do not justify the resulting costs and complexity.

BC6. The Board considered whether it should require an acquirer to prospectively account for any change in depreciation, amortization, or other income effects as a result of an adjustment to provisional amounts, rather than require the effect of the change, calculated as if the accounting had been completed at the acquisition date, to be recognized through the income statement in the period the adjustment to the provisional amount is determined. The Board determined that recognizing the full effect of the adjustment would be more effective in highlighting the effect that revisions to provisional amounts have on earnings in the period the adjustment is determined. In addition, entities would be required to disclose the nature and amount of measurement period adjustments recognized in the current period.

BC7. The Board considered the significance of the proposed amendments in terms of comparability with the requirements under International Financial Reporting Standards (IFRS). While existing guidance is aligned with IFRS requirements, the Board noted that due to differences in reporting requirements, that is, quarterly reporting requirements for U.S. publicly traded companies as opposed to semiannual reporting in certain other jurisdictions, revising previously issued financial statements to retrospectively account for adjustments to provisional amounts during the measurement period is likely not as prevalent under IFRS. As a result, the cost of complying with the converged guidance may be greater for U.S. GAAP preparers than others. Therefore, the Board believes the benefits of convergence do not justify the costs.

## Effective Date and Transition

BC8. The Board decided that the amendments in this proposed Update would be applied prospectively to adjustments to provisional amounts that occur after the effective date of this proposed Update, during the measurement period, because the costs of a retrospective application would not justify its benefits.

BC9. The Board decided that the only disclosures required at transition would be the nature of and reason for the change in accounting principle. An entity would provide that disclosure in the first annual period of adoption, and in the interim periods within the first annual period.

BC10. The Board will determine the effective date after it considers feedback from stakeholders on how much time they believe would be necessary to adopt the proposed amendments.

## Benefits and Costs

BC11. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC12. The Board anticipates that the amendments in this proposed Update will eliminate costs related to retrospectively adjusting prior-period financial information for the effects of changes to provisional amounts determined during the measurement period. The Board does not expect the proposed amendments to significantly reduce the relevance of the information provided for provisional amounts recognized in a business combination, because the effects of changes to provisional amounts will be highlighted in the income statement and footnote disclosures.

## Amendments to the XBRL Taxonomy

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The provisions of this Exposure Draft, if finalized as proposed, would require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). We welcome comments on these proposed changes to the Taxonomy through [ASU Taxonomy Changes](#) provided at [www.fasb.org](http://www.fasb.org). After the FASB has completed its deliberations and issued a final Accounting Standards Update, proposed amendments to the Taxonomy will be made available for public comment at [www.fasb.org](http://www.fasb.org) and finalized as part of the annual release process.