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September 2015, No. 15-43

Contents

FASB Simplifies Measurement-Period Adjustments in Business Combinations

A recently issued FASB Accounting Standards Update (ASU) eliminates the requirement to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated.[1]

Key Facts and Impacts

Current Requirements	Amendments
If the initial measurement of 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 with incomplete measurement.	No change.
Measurement-period adjustments are calculated as if they were known at the acquisition date, and are recognized by revising information for prior periods.	Measurement-period adjustments are calculated as if they were known at the acquisition date, but are recognized in the reporting period in which they are determined. Prior-period information is not revised.
Disclosures explain the reason for, and the nature and amount of, measurement-period adjustments.	Additional disclosures are required about the impact on current-period income statement line items of adjustments that would have been recognized in prior periods if prior-period information had been revised.

Financial statement users will continue to receive the information necessary to understand what the impact would have been if prior-period information had been revised.

[1] FASB Accounting Standards Update No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, available at www.fasb.org.

New Disclosures but Filing Burden Reduced

An entity discloses the amount of the adjustment to provisional amounts in the current-period income statement that would have been recognized in prior periods if the adjustment had been recognized as of the acquisition date.

The disclosure is required for each affected income statement line item, and may be presented separately on the face of the income statement or in the notes to the financial statements.

Because the information is provided through disclosures rather than retrospective adjustments, SEC registrants will no longer have to file revised historical financial statements reflecting material retrospective adjustments when doing a capital raising/registration statement.

The Measurement Period – A Reminder

The measurement period is a *reasonable time period* after the acquisition date when the acquirer may adjust the provisional amounts recognized for a business combination if the necessary information is not available by the end of the reporting period in which the acquisition occurs. This may occur, for example, when appraisals are required to determine the fair value of plant and equipment or identifiable intangible assets acquired, or when a business combination is consummated near the end of the acquirer's reporting period.

The measurement period ends as soon as the acquirer receives the information it was seeking, or learns that more information is not obtainable. But in any event, the measurement period cannot continue for more than one year from the acquisition date.

KPMG Observations

As indicated in the ASU's Basis for Conclusions, some Board members were concerned that reflecting all of the income statement effect of the change to the provisional amount on depreciation, amortization, or other income statement effects in the current reporting period would distort financial statement results.

Notwithstanding these concerns, the new disclosures ensure that financial statement users receive full information about the adjustments made.

Transition and Effective Date

An entity will apply the changes prospectively to adjustments of provisional amounts that occur after the effective date.

Depending on the type of entity, the effective date will be for the fiscal periods identified in the following table.

	Annual Periods	Interim Periods
Public Business Entities	Beginning after December 15, 2015	Beginning after December 15, 2015
Early adoption is permitted if financial statements were not issued. This means that calendar year-end entities will be able to adopt the amendments in the third quarter of 2015.		
All Other Entities	Beginning after December 15, 2016	Beginning after December 15, 2017
Early adoption is permitted if financial statements were not made available for issuance.		

Convergence

The amendments create a new difference between U.S. GAAP and IFRS. However, the FASB observed that due to differences in reporting requirements (i.e., quarterly versus semi-annually), revising previously issued financial statements for measurement-period adjustments is likely not as prevalent under IFRS. As a result, the cost of complying with the previously converged guidance may be greater for U.S. GAAP preparers than others.

KPMG Observations

The IASB recently completed its post-implementation review of its standard on business combinations.[2] However, measurement-period adjustments were not identified as a concern in the IASB's Feedback Statement. Therefore, it is unclear whether the IASB will propose similar amendments.

Notwithstanding the difference in requirements, similar information will be provided by both U.S. GAAP and IFRS preparers, albeit through disclosures rather than presentation for U.S. GAAP preparers.

Contact us: This is a publication of KPMG's Department of Professional Practice 212-909-5600

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[2] Post-implementation Review of IFRS 3 Business Combinations – Report and Feedback Statement, available at www.ifrs.org.