EXECUTIVE SUMMARY
A GUIDE TO ACCOUNTING FOR BUSINESS COMBINATIONS

This Executive Summary is part of RSM US LLP’s ‘A Guide to Accounting for Business Combinations’ and should be read in conjunction with that guide.
INTRODUCTION

The current guidance on accounting for business combinations is captured in ASC 805. Some of the complexities involved in applying ASC 805 include the following:

- The required use of a fair-value model to account for business combinations often requires the involvement of valuation specialists—both related to management’s accounting for a business combination and the auditor’s testing of the amounts recognized.
- It is extremely important for the buyer to determine as early in the acquisition process as possible whether it has acquired a business within the scope of the business combination accounting guidance because whether a business has been acquired or not has significant accounting and valuation implications.
- The definition of a business is one of the more challenging aspects of the business combination accounting guidance to implement in practice because that definition encompasses much more than just a group of assets or net assets that could function together as a standalone business. A significant amount of judgment may need to be exercised in determining whether a business has been acquired.
- The accounting for contingent consideration involves a number of potentially complex steps, including measuring it at fair value initially, classifying it appropriately as either an asset, liability or equity and subsequently adjusting it to fair value if it is classified as an asset or liability.

These observations and many others underscore the importance of familiarizing yourself with the business combination accounting guidance before a business combination occurs. Doing so will prepare you and allow you to plan for the accounting challenges that await. This summary provides you with the start you need—an overview of the accounting guidance applicable to business combinations.

To locate additional information on specific aspects of the business combination accounting guidance, refer to the table of contents. In addition, refer to Section 1.1.4 of the guide for definitions of acronyms and titles for authoritative literature references utilized throughout the guide. Finally, as of the publication date for this edition of the guide (June 1, 2016), the FASB has finalized certain changes to the Codification that will affect various aspects of the accounting for a business combination (e.g., recognition and measurement of leases) when those changes become effective. In addition, the FASB is in the process of making additional changes to the Codification that may also affect various aspects of the accounting for a business combination (e.g., definition of a business) if those changes are finalized and become effective. Information about these changes can be found in our summary, Business combinations: In motion (www.rsmus.com/bcinmotion).

SCOPE

A business combination occurs when the buyer obtains control of a business through a transaction or other event. The three key elements in the definition of a business combination are the following:

1. That which is being acquired must meet the definition of a business. A business includes inputs and processes that are at least capable of producing outputs (i.e., outputs do not have to be part of the transferred set). In some situations, considerable judgment will need to be exercised in determining whether a business (rather than just a group of assets or net assets) was acquired.
by the buyer. For example, all of the inputs and processes used by the seller to produce outputs do not have to be acquired to conclude that a business has been acquired. Determining whether sufficient inputs and processes have been acquired in these situations to conclude that a business has been acquired often requires considerable judgment to be exercised.

2. The buyer must obtain control of a business. To evaluate whether control of a business has been obtained, the buyer must first determine whether the business is a VIE. If so, the buyer must apply the guidance in ASC 810–10 to determine whether it has a controlling financial interest in the VIE. If the buyer obtains a controlling financial interest in a business that is a VIE, the transaction or other event giving rise to that controlling financial interest should be accounted for as a business combination. If the business is not a VIE (e.g., it is a voting interest entity), the buyer must determine whether it has obtained control over the business using the same definition of control that is used in determining whether a voting interest entity should be consolidated. Under this definition, depending on the facts and circumstances, control may be obtained in several ways, including through the acquisition of a majority ownership interest in the target or as a result of minority veto rights lapsing.

3. Control can be obtained by the buyer through a transaction or other event. An event other than a transaction may occur through no direct action of the buyer. For example, the buyer may obtain control of an investee as a result of that investee acquiring its own shares, which has the effect of increasing the buyer’s ownership interest to that of a controlling interest. Assume that an investor owns 60,000 shares in a business and the business has 150,000 shares outstanding. In this situation, the investor owns a 40 percent interest in the business and accounts for its investment using the equity method. If the business buys or redeems 50,000 of its own shares from other investors, those shares are retired or become treasury shares and are no longer considered outstanding. As a result, the investor’s ownership interest in the business increases to 60 percent (the investor’s 60,000 shares in the business divided by 100,000 shares outstanding). This example illustrates that an investor can become a buyer by obtaining control without transferring consideration and without undertaking any other direct action on its own behalf and be subject to the business combination accounting guidance.

Transactions that meet the definition of a business combination include, but are not limited to: (a) leveraged buyouts, (b) combinations between two or more mutual entities and (c) initial consolidation of a VIE when the VIE and PB are not under common control and the VIE is a business. Even if a transaction or other event satisfies the definition of a business combination, there are specific types of transactions explicitly excluded from the scope of the business combination accounting guidance in ASC 805. Examples include combinations between not–for–profit entities and combinations between entities under common control. Accounting for mergers and acquisitions of not–for–profit entities is covered in ASC 954–805 and ASC 958–805. Accounting for combinations between entities under common control is covered in ASC 805–50.

Determining whether a transaction or other event should be accounted for as a business combination instead of an asset acquisition has significant accounting repercussions. For example:

- Goodwill is recognized in a business combination, but not in an asset acquisition.
- Acquisition costs are generally expensed as incurred and when the related services have been received by the buyer in a business combination, while the same costs are generally considered part of the cost of the assets (or net assets) in an asset acquisition.
- Assets acquired and liabilities assumed in a business combination are measured predominantly at fair value, while assets acquired and liabilities assumed in an asset acquisition are measured by allocating the total cost of the net assets based on the fair values of the individual assets acquired and liabilities assumed.

These are but a few of the reasons why it is important to draw the appropriate conclusion about whether a business combination occurred.
It is also important to note that the definition of a business used for purposes of determining whether a business combination has occurred is also used in other accounting determinations. For example, the definition of a business discussed herein is also used in determining:

- What constitutes a reporting unit for purposes of goodwill impairment testing (unless goodwill impairment testing is performed at the entity level as permitted under the private-company goodwill alternative [see Section 19.1 of the guide])
- What constitutes a business for purposes of a scope exception to the guidance on VIEs included in ASC 810–10
- Whether the guidance in ASC 810–10 on how to account for decreases in a parent’s ownership interest in a subsidiary (including decreases that result in deconsolidation) is applicable
- Whether a specific type of transaction is a spinoff

An entity must consistently apply the definition of a business in these and other places in U.S. GAAP in which it is used.

**OVERALL ACCOUNTING MODEL**

The overall accounting model used to account for a business combination consists of the following four steps:

1. **Identify the buyer**
2. **Determine the acquisition date**
3. **Recognize and measure, predominantly at fair value, the assets acquired, liabilities assumed and any NCI**
4. **Recognize and measure the goodwill or a gain from a bargain purchase**

**1. Identify the buyer**

If the business over which control has been obtained is a VIE, the buyer is always the PB of the VIE as determined under the VIE consolidation model. If the business over which control has been obtained is not a VIE, the buyer is the combining entity that gains control over the business. In these situations, the identity of the buyer is typically readily apparent after considering which party is transferring cash, incurring liabilities and (or) issuing equity interests. However, if the identity of the buyer is not readily apparent after considering these factors, then certain qualitative factors should be examined in the context of the facts and circumstances of the specific business combination.

Identification of the appropriate party as the buyer in a business combination is important because it is the buyer who applies the provisions of ASC 805, and it is the target whose assets and liabilities are measured predominantly at fair value.

**2. Determine the acquisition date**

The acquisition date is the date that the buyer obtains control of the target, which is usually the closing date. The acquisition date may only be different from the closing date if there is a written agreement transferring control of the target to the buyer on a date other than the closing date. Identifying the appropriate acquisition date is important because it is the date at which: (a) all amounts involved in the accounting for the business combination are measured by the buyer and (b) the buyer begins consolidating the target for accounting purposes.
3. Recognize and measure assets acquired, liabilities assumed and any NCI

Recognition

Assets and liabilities recognized in the accounting for a business combination must meet the definitions of assets and liabilities provided in the following paragraphs of CON 6:

25. Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events. [footnote omitted]
35. Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. [footnotes omitted]

With only limited exceptions, each item acquired in a business combination that meets one of these definitions should be recognized in the accounting for the business combination. The exceptions to this general recognition principle are discussed later in this summary.

For purposes of determining whether an intangible asset should be recognized in the accounting for a business combination, the buyer must focus on whether the intangible asset: (a) arises from contractual or other legal rights or (b) is capable of both being (i) separated from the entity and (ii) sold, transferred, licensed, rented or exchanged either on its own or combined with a related contract, identifiable asset or liability. However, under the private-company intangible asset alternative (see Section 18.1 of the guide), a private company may choose to elect an accounting policy under which it does not separately recognize the following intangible assets in the accounting for a business combination: (a) intangible assets that would otherwise arise from NCAs or (b) CRI assets that cannot be separately sold or licensed. The value of these intangible assets is effectively subsumed into goodwill. If a private company elects the intangible asset alternative, the general guidance applicable to the recognition of intangible assets in ASC 805 continues to be relevant for purposes of identifying intangible assets other than those affected by the alternative.

ASC 805–20–55–11 through 45 lists and discusses several types of intangible assets that should be recognized separately from goodwill. Examples of such intangible assets include:

- Assets (or liabilities) for the favorable (or unfavorable) terms of operating leases (Note: The FASB issued ASU 2016–02 in February 2016, which will, upon its effective date, significantly change the accounting for leases acquired in a business combination. For additional information about ASU 2016–02, including its significantly deferred effective date, refer to our summary, Business combinations: In motion [www.rsmus.com/bcinmotion].)
- Assets for acquired IPR&D
- Assets for customer contracts, customer relationships and (or) customer lists (unless the private–company intangible asset alternative has been elected, in which case such assets are only recognized if they can be separately sold or licensed)

Additional information on the recognition of certain assets and liabilities as a result of a business combination is provided in the following table:

<table>
<thead>
<tr>
<th>Item</th>
<th>Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible IPR&amp;D</td>
<td>Recognize as an indefinite–lived intangible asset (measured at its fair value) and test at least annually for impairment until completion or abandonment of the project. Upon completion, amortize the asset over its useful life. Upon abandonment, write down the asset as appropriate.</td>
</tr>
<tr>
<td>Contingent consideration arrangements related to previous acquisitions in which the target was the acquirer</td>
<td>Recognize, measure and subsequently account for using the same guidance that the buyer would apply to any contingent consideration involved in its acquisition of the target.</td>
</tr>
</tbody>
</table>
### Measurement

The measurement principle applied in the accounting for a business combination is fair value. With only limited exceptions, the assets and liabilities recognized (including working capital accounts such as accounts receivable and payable), along with any NCI recognized, are measured at their fair value. Even if less than 100 percent of the target is acquired, the assets acquired and liabilities assumed in a business combination are still recorded at 100 percent of their fair value (or other amounts measured in accordance with ASC 805). The exceptions to the general fair value measurement principle are discussed later in this summary.

The definition of fair value and related fair value measurement guidance that should be used in the accounting for a business combination can be found in ASC 820. Use of this definition and related fair value measurement guidance requires measuring the fair value of an acquired nonfinancial asset based on the highest and best use of that asset from a market participant’s perspective. In other words, an entity-specific value should not be used, even for assets that the buyer does not intend to use. Use of this definition and the related fair value measurement guidance also means a separate valuation allowance is not recognized when recording accounts receivable acquired in a business combination.

### NCI

When a partial acquisition occurs (which is discussed later in this summary), the acquisition-date fair value of the NCI should be recognized. When identifying the instruments that should be included in the NCI, the buyer needs to consider the target’s or, in some cases, the buyer’s financial instruments (or embedded features) and determine whether those instruments (or embedded features) meet the definition of a liability or equity (which can be a complex determination). The financial instruments (or embedded features) that are issued by the buyer and meet the requirements to be classified as equity, as well as instruments of the target that should be classified as equity in its standalone financial statements, should be considered part of the NCI in the target.

In general, it is not appropriate for the buyer to base the fair value of the NCI solely on the per-share consideration transferred to obtain the controlling interest because the consideration transferred to obtain the controlling interest typically includes a control premium. As such, in estimating the fair value of an NCI using the amount paid to obtain a controlling interest, adjustments (for a DLOC and [or] DLOM) are typically required to remove the effects of the control premium.

Within the consolidated balance sheet, the NCI in a target should be: (a) clearly identified and labeled and (b) presented separately within equity (i.e., not combined with the buyer’s [i.e., parent’s] equity). However, public companies must also consider additional guidance that could result in an NCI that includes redemption features being classified as mezzanine equity (which is presented on the balance sheet between liabilities and equity). While this guidance is only technically applicable to public companies, we believe private companies should also follow this guidance in most situations.
**Exceptions to overall recognition and measurement principles**

The following table lists those types of assets and liabilities that are recognized and (or) measured using principles other than the general recognition and (or) measurement principles discussed earlier:

<table>
<thead>
<tr>
<th>Assets or liabilities related to:</th>
<th>Exception to overall recognition and (or) measurement principle</th>
<th>Nature of exception</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingencies (other than those involving contingent consideration and indemnifications)</td>
<td>Both</td>
<td>A contingency is recognized at its acquisition-date fair value if that fair value can be determined. For purposes of determining fair value, the guidance in ASC 820 is used. If the acquisition-date fair value of a contingency cannot be determined, then an asset or liability is recognized for the contingency if it is probable at the acquisition date that such an asset or liability exists and if its amount is reasonably estimable. The guidance in ASC 450 should be used when assessing these criteria. Regardless of whether the fair value or the reasonably estimable amount is used to measure a contingent asset or contingent liability recognized in the accounting for a business combination, both measurements must reflect the facts and circumstances as they existed on the acquisition date. In other words, both are acquisition-date measurements and should not take into consideration facts and circumstances arising after the acquisition date. An asset or liability is not recognized for a contingency in the accounting for a business combination if: (a) its fair value cannot be determined and (b) the probable and reasonably estimable criteria are not met. Instead, the contingency is disclosed and accounted for subsequent to the acquisition date in accordance with ASC 450.</td>
</tr>
<tr>
<td>Indemnification assets</td>
<td>Both</td>
<td>The recognition and measurement of indemnification assets follow the recognition and measurement of the underlying indemnified items. For example, consider a situation in which the seller in a business combination contractually indemnifies the buyer for the unfavorable resolution of the target’s open litigation at the acquisition date. In this example, the buyer’s accounting for the indemnification asset depends on its accounting for the litigation (i.e., the indemnified item). Collectibility and contractual limitations of the indemnification should be taken into consideration in measuring the indemnification asset.</td>
</tr>
<tr>
<td>Assets or liabilities related to:</td>
<td>Exception to overall recognition and (or) measurement principle</td>
<td>Nature of exception</td>
</tr>
<tr>
<td>---------------------------------</td>
<td>---------------------------------------------------------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Income taxes</td>
<td>Both</td>
<td>The guidance in ASC 805–740 and ASC 740 is used to recognize and measure the income tax effects of a business combination.</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>Both</td>
<td>Other applicable guidance in the Codification, such as that found in ASC 712 and ASC 715, are used to recognize and measure assets and liabilities related to the target’s employee benefit offerings.</td>
</tr>
<tr>
<td>Reacquired rights</td>
<td>Measurement</td>
<td>The value of reacquired rights is measured based on their remaining contractual term. Future renewals should not be taken into consideration. This is the case even if market participants would renew the underlying contract.</td>
</tr>
<tr>
<td>Reacquired rights              (when the buyer acquires a target to which it previously granted certain rights, those reacquired rights represent an intangible asset)</td>
<td>Measurement</td>
<td>ASC 718 is used to measure the value of replacement share-based payment awards.</td>
</tr>
<tr>
<td>Share-based payment awards</td>
<td>Measurement</td>
<td>Assets held for sale are measured at their fair value less costs to sell.</td>
</tr>
<tr>
<td>Assets held for sale</td>
<td>Measurement</td>
<td></td>
</tr>
</tbody>
</table>

**Classification or designation of acquired assets and assumed liabilities**

There are many instances in which U.S. GAAP: (a) requires an entity to determine the classification of a transaction, instrument or agreement (e.g., whether an investment in a debt security should be classified as trading, available-for-sale or held-to-maturity), which then dictates its accounting or (b) allows an entity to designate a transaction, instrument or agreement in a particular manner (e.g., when a derivative instrument has been properly designated as a hedging instrument), which then has repercussions on its accounting. In general, when leases within the scope of ASC 840 or insurance contracts within the scope of ASC 944–10 are acquired in a business combination, the classification of those leases and insurance contracts should be based on the terms, conditions and other relevant factors in existence at their inception or if applicable, upon their most-recent modification. For all other transactions, instruments or agreements, the buyer’s classification or designation should be based on applying the relevant authoritative literature to the terms, conditions and other relevant factors in existence on the acquisition date.

**4. Recognize goodwill or a gain from a bargain purchase**

The amount of goodwill or gain from a bargain purchase to be recognized in conjunction with a business combination is determined as follows:

Consideration transferred (measured predominantly at fair value)

\[ \text{Consideration transferred} = \text{Acquisition–date fair value of any NCI (in the case of a partial acquisition)} + \text{Acquisition–date fair value of the buyer’s previously held equity interest in the target (in the case of a step acquisition)} \]

\[ = \text{Total (i.e., fair value of the target as a whole)} - \text{Net assets acquired by the buyer (which is 100 percent of the target’s net assets measured predominantly at fair value)} \]

\[ = \text{Goodwill (if positive); Gain from a bargain purchase (if negative)} \]
The sum of the first three elements can also be thought of as the fair value of the target as a whole and the amount of goodwill can also be thought of as the excess of the fair value of the target as a whole over the net assets acquired by the buyer (which is 100 percent of the target’s net assets measured predominantly at fair value).

This approach to determining goodwill results in the recognition of 100 percent of goodwill, not just the buyer’s portion of goodwill. Recognizing 100 percent of goodwill results from: (a) including in the fair value of the target as a whole both the fair value of any NCI and the fair value of any previously held equity interest of the buyer and (b) recognizing 100 percent of the fair value (or other measured amount) of the net assets acquired by the buyer.

**Consideration transferred**

All consideration transferred, other than replacement share–based payment awards, is recognized in the accounting for the business combination at its acquisition-date fair value. This includes contingent consideration and equity securities transferred by the buyer to the sellers, which should reflect the value of the combined entity.

Based on the applicable authoritative literature, contingent consideration must be classified as an asset, liability or equity on the acquisition date. In practice, it is unusual for contingent consideration to meet all of the necessary conditions that are required for equity classification.

Replacement share–based payment awards are measured using the measurement principles in ASC 718. In some cases, the value of replacement share–based payment awards under ASC 718 must be allocated to both precombination and postcombination periods. That portion allocated to the precombination period represents an element of consideration transferred in the business combination and that portion allocated to the postcombination period represents compensation cost to be recognized after the acquisition date for postacquisition services.

**Partial acquisition**

A partial acquisition occurs when the buyer in a business combination acquires less than 100 percent, but more than 50 percent, of the target. In other words, the buyer acquires a controlling interest, but not a 100 percent interest, in the target. For example, the buyer acquires 65 percent of the target in a single transaction.

When a partial acquisition occurs, the acquisition–date fair value of the NCI (35 percent in the example in the preceding paragraph) should be recognized and taken into consideration in measuring the amount of goodwill or gain from a bargain purchase that should be recognized as a result of the business combination. In other words, in a partial acquisition, the acquisition–date fair value of the NCI represents one part of the fair value of the target as a whole. Additional information related to the initial accounting for the NCI is provided earlier in this summary.

**Step acquisition**

A step acquisition occurs when the buyer in a business combination has a previously held equity interest in the target and acquires an additional interest in the target that results in the buyer obtaining control. For example, on November 1, 20X9, the buyer owns a 30 percent equity interest in the target. On November 2, 20X9, the buyer acquires an additional 35 percent equity interest in the target, which ultimately provides the buyer with a 65 percent controlling interest in the target. As a result of acquiring the additional 35 percent equity interest, the buyer has acquired the target for accounting purposes and must account for this acquisition as a business combination. A step acquisition is also referred to as a business combination achieved in stages.

When a step acquisition occurs, the buyer must recognize either: (a) a gain for the excess of the acquisition–date fair value of the buyer’s previously held equity interest in the target over the carrying value of that interest or (b) a loss for the excess of the carrying value of the buyer’s previously held...
equity interest in the target over the acquisition-date fair value of that interest. In general, it is not appropriate for the buyer to base the fair value of its previously held equity interest in the target solely on the per-share consideration transferred to obtain the controlling interest because the consideration transferred to obtain the controlling interest typically includes a control premium. As such, in estimating the fair value of any previously held equity interest using the amount paid to obtain a controlling interest, adjustments (for a DLOC and/or DLOM) are typically required to remove the effects of the control premium.

**Bargain purchase**

A bargain purchase results from the excess of net assets acquired by the buyer (which is 100 percent of the target’s net assets measured predominantly at fair value) over the sum of: (a) consideration transferred (measured predominantly at fair value), (b) the fair value of any NCI and (c) the fair value of any previously held equity interest of the buyer. Gains from bargain purchases are expected to occur infrequently. When one does result from the buyer’s preliminary accounting for a business combination, the buyer must perform a thorough self-review of: (a) the accuracy and completeness of the identifiable assets acquired and liabilities assumed and (b) the appropriateness of the procedures used to measure the individual components within each element of the goodwill calculation and the results of applying those procedures. If a gain from a bargain purchase still exists after the buyer performs this thorough self-review, then the buyer should recognize a gain from a bargain purchase in its income statement and prepare its disclosure explaining why a bargain purchase resulted from the business combination. The gain should be attributed entirely to the buyer (i.e., none of the gain should be attributed to any NCI).

**MEASUREMENT PERIOD ADJUSTMENTS**

The buyer may not be able to complete its accounting for a business combination by the time it has to issue its financial statements that include the acquisition date. If this is the case, then the buyer should recognize provisional amounts in its financial statements and has up to one year from the acquisition date to finalize those amounts. If the buyer’s accounting for a business combination reflected in its financial statements is incomplete, then the buyer must disclose that fact and identify all amounts included in its financial statements that are provisional.

An adjustment during the measurement period is only reflected as a measurement period adjustment if it results from the buyer: (a) obtaining additional information about the facts and circumstances that existed as of the acquisition date and (b) determining that if this additional information had been known, it would have affected the recognition or measurement of some element of the business combination accounting (e.g., recognition or measurement of an acquired asset or assumed liability) as of the acquisition date. If an adjustment does not meet both of these criteria, it is not considered a measurement period adjustment and as such, is not reflected in the accounting for the business combination. In these situations, oftentimes the adjustment affects the buyer’s operating income.

Before the adoption of ASU 2015–16 (see Section 12.7.1 of the guide), measurement period adjustments affect the acquisition-date accounting for the business combination as they are reflected retrospectively back to the acquisition date. When financial statements that include the acquisition date are reissued, they must be adjusted to reflect the effects of any measurement period adjustments recorded since the acquisition date. After the adoption of ASU 2015–16, measurement period adjustments are recorded in the period in which they occur. In other words, historical financial statements are not retrospectively adjusted. While the measurement period adjustment is recorded in the period in which it occurs, it is still measured as of the acquisition date. In addition, the buyer also needs to consider the income statement effects (if any) that would have resulted in the intervening period if the measurement period adjustment (hypothetically) had been recorded as of the acquisition date. For this purpose, the intervening period is the period from the acquisition date through the period that ended before the adjustment occurred. For example, if the acquisition by an entity with a
calendar year-end occurred on November 30, 20X1 and the measurement period adjustment occurs in May 20X2, which is subsequent to the issuance of the December 31, 20X1 financial statements, the intervening period is December 1, 20X1 through April 30, 20X2.

**SUBSEQUENT ACCOUNTING**

Once an asset or liability is recognized in the accounting for a business combination, the subsequent accounting for that asset or liability typically follows the accounting guidance otherwise applicable to those assets and liabilities. For example, property, plant and equipment recognized in the accounting for a business combination should subsequently be depreciated like any other property, plant and equipment.

Certain assets and liabilities recognized in the accounting for a business combination merit unique subsequent accounting guidance given their nature and the recognition and measurement principles applied to them in the accounting for the business combination. This subsequent accounting guidance applies only if the adjustment being considered is not a measurement period adjustment. Those items for which unique subsequent accounting guidance exists, as well as a brief overview of that guidance, are provided in the following table:

<table>
<thead>
<tr>
<th>Item</th>
<th>Overview of subsequent accounting guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reacquired rights</td>
<td>The amortization period for an intangible asset representing reacquired rights is its remaining contractual period (i.e., renewals are not considered in determining the amortization period).</td>
</tr>
<tr>
<td>Contingent assets and liabilities</td>
<td>A systematic and rational accounting policy based on the nature of the contingent asset or liability should be used to subsequently account for that asset or liability. In essence, the buyer must adopt an accounting policy related to its subsequent accounting for contingent assets and contingent liabilities and that accounting policy should refer to other relevant U.S. GAAP as appropriate.</td>
</tr>
<tr>
<td>Indemnification assets</td>
<td>Adjustments to the carrying amount of an indemnification asset follow any adjustments made to the underlying indemnified item. In other words, the same basis that is used to measure the indemnified asset or liability is used to measure the indemnification asset. Collectibility and contractual limitations of the indemnification should be taken into consideration when remeasuring an indemnification asset. In many cases, the subsequent accounting adjustments to the indemnified asset or liability and the indemnification asset will offset each other in the same line item of the income statement (i.e., the changes would effectively be reflected on a net basis in the income statement). Indemnification assets are removed from the books only upon collection, sale or other loss of rights to the benefits provided by the indemnification.</td>
</tr>
</tbody>
</table>
### Contingent Consideration

Contingent consideration is the subsequent accounting for contingent consideration, which depends on whether the contingent consideration is classified as an asset, liability, or equity. Contingent consideration classified as equity is not remeasured in subsequent accounting periods. Contingent consideration classified as an asset or liability is remeasured to its fair value at the end of each reporting period and the change in fair value is reflected in income or expense, unless the contingent consideration qualifies as a designated hedging instrument for which ASC 815-20-35 requires the change in fair value to be recognized in OCI. The change in fair value of contingent consideration that is not a derivative should be reflected on the income statement in a line item that is included within operating expense or income. The line item on the income statement where the change in the fair value of contingent consideration that is a derivative should be reflected depends on the facts and circumstances.

### Part of the Business Combination or Not Part of the Business Combination

The buyer must determine whether there are any other relationships or transactions that should be accounted for separate from the business combination. Examples of such other relationships or transactions include:

- Payments made to settle pre-existing relationships between the buyer and the target
- Payments made to the target’s employees or former owners for future services
- Payments to reimburse the target for acquisition costs paid on behalf of the buyer
- Payments to reimburse the target for restructuring costs incurred at the buyer’s request

In determining whether relationships or transactions that will or may result in payments to the target’s employees should be accounted for separate from the business combination, the buyer should first consider whether the payments to the employees are forfeited upon termination of employment (i.e., whether the payments are contingent upon employment). If the payments are forfeited upon termination of employment, then they should be accounted for separate from the business combination as compensation. In determining whether other relationships or transactions between the buyer and the target, the target’s employees and (or) the sellers should be accounted for separate from the business combination, the buyer should consider the following questions:

- Why did the buyer, target, target’s employees, sellers and (or) other involved parties form the relationship or enter into or modify the transaction?
- Who initiated the relationship or transaction?
- When was the relationship or transaction entered into or modified?
The purpose of these questions is to determine which party or parties benefit from the other relationship or transaction.

In some cases, accounting for a transaction or other relationship separate from the business combination will require the buyer to recognize a gain or loss (e.g., the effective settlement of a lawsuit between the buyer and the target as a result of the business combination).

Acquisition costs are not treated as part of the consideration transferred in a business combination. These costs are expensed as incurred and when the related services have been received by the buyer unless other U.S. GAAP provides different guidance, which is the case for debt and equity issuance costs. The buyer’s acquisition costs should still be recognized by the buyer even if they are paid by the target, the sellers, the buyer’s parent or another related party. If a related party is providing the acquisition services, the buyer needs to consider whether the billings from the related party for those services are comparable to market rates for those services. If one service provider provides multiple acquisition services with different accounting models, the buyer needs to consider whether the billings from that service provider have been properly allocated to the different services provided.

**DISCLOSURES**

The disclosure requirements for business combinations center on satisfying the following two objectives: (1) users of the buyer’s financial statements are able to evaluate the nature of the business combination and (2) users of the buyer’s financial statements are able to evaluate the financial effects of the business combination. Many specific disclosures are required to satisfy these objectives. However, if complying with these specific disclosure requirements does not fully satisfy the stated disclosure objectives, then the buyer must provide any incremental information that would result in the full satisfaction of those objectives.

Disclosures are required for business combinations that occur: (a) during the current financial reporting period and (b) after the end of the current reporting period, but before the buyer’s financial statements for that period are issued or available to be issued.

A separate disclosure objective applies to adjustments that are recorded in the current reporting period to the accounting for a business combination that occurred in either the current or a previous reporting period. That disclosure objective requires the buyer to disclose information that enables the users of its financial statements to evaluate the financial effects of those adjustments. Again, specific disclosures are required to satisfy this objective. If this objective is not satisfied by disclosing the information required by the specific disclosure requirements, then the buyer must provide the incremental information that would result in the full satisfaction of the objective.

In addition to the disclosures required by ASC 805, there are many other disclosure requirements in U.S. GAAP that might also apply to certain aspects of the accounting for a business combination. For example, if the buyer acquires the obligation to provide employee benefits such as pension benefits and other postretirement benefits as part of a business combination, the buyer must provide all of the disclosures related to these employee benefit obligations that are required under the applicable U.S. GAAP.