

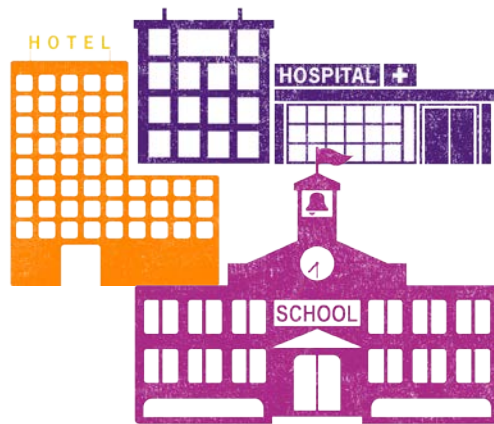
# Audit Alert: ASU simplifying the equity method released

On March 15, the FASB [issued](#) ASU 2016-07, *Simplifying the Transition to the Equity Method of Accounting*. The new guidance eliminates the requirement to retroactively adopt the equity method of accounting if an investment previously accounted for using another method subsequently qualifies for accounting under the equity method as a result of an increased level of ownership interest or degree of influence. Instead, an entity should add the cost of acquiring the additional interest in the investee, if any, to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment qualifies for the equity method.

The new guidance also requires entities to recognize in earnings unrealized holding gains or losses previously recognized in accumulated other comprehensive income related to available-for-sale equity securities that become eligible for the equity method at the date the investment qualifies for the equity method.

The new guidance is effective for all entities in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Entities should prospectively apply the new guidance after its effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted for all entities.

Source: Grant Thornton, *On The Horizon*, March 24, 2016



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