

Audit Alert: Timing of acquiree's ASC 606 adoption for consolidated reporting

December 18, 2017



Aida Ramirez

Partner Head of Audit
Kevane Grant Thornton
T (1) 787 754 1915
E aida.ramirez@pr.gt.com

Questions have arisen about when a public business entity acquirer of a nonpublic acquiree should present the acquiree's results in accordance with ASC 606 in the consolidated financial statements.

Specifically, when a public business entity acquirer adopts ASC 606 on January 1, 2018 and subsequently acquires the nonpublic acquiree in, for example, June 2018, before the acquiree is required to adopt ASC 606 in its stand-alone financial statements. In light of the SEC Staff Announcement discussed below, questions have arisen about whether the acquiree may continue to apply ASC 605 after the acquisition and whether the parent acquirer may simply consolidate and report the acquiree's ASC 605 results with the parent's other results under ASC 606 until January 1, 2019—the date the acquiree otherwise would have had to adopt ASC 606.

These questions stem from consideration of the impact of an SEC Staff Announcement made at the July 2017 EITF meeting (codified in ASU 2017-13, discussed below), which states, in part, that:

The SEC Staff would not object to a public business entity that otherwise would not meet the definition of a public business entity except for a requirement to include or the inclusion of its financial statements or financial information in another entity's filing with the SEC adopting ASC Topic 606 for annual reporting periods beginning after December 15, 2018.

This announcement narrowly focuses on an entity being considered a public business entity solely because its separate financial statements or financial information must be included in another company's SEC filing, and on whether the statements or information should reflect

Call to action

Access our Monthly Alerts on:

www.grantthornton.pr

accounting standards effective for public business entities. A common example is an acquired business whose financial statements for period(s) prior to acquisition are required to be included in its acquirer's Form 8-K.

In the example fact pattern discussed above, a public business entity that has adopted ASC 606 acquires in June 2018 a nonpublic business that has not yet adopted ASC 606. In light of the announcement, if the acquired business's historic financial statements reflecting ASC 605 for periods prior to acquisition are included in an SEC filing by the acquirer, those financial statements would not have to be revised to reflect the adoption of ASC 606, even though the public business entity effective date of January 1, 2018 has passed.

The announcement, however, does not allow the acquirer to continue applying ASC 605 to the acquiree's revenue transactions in ongoing consolidated financial reporting after acquisition. That is, upon acquisition, the acquirer cannot delay the acquiree's adoption of ASC 606 in consolidated financial statements. Therefore, the acquirer in the fact pattern must apply ASC 606 to the acquiree's revenue transactions from the date of the acquisition forward for the purposes of consolidated financial statements.

Source:

Grant Thornton, On the Horizon, October 5, 2017.

We are committed to keep you updated of all developments that may affect the way you do business in Puerto Rico. Please contact us for further assistance in relation to this or any other matter.



DISCLAIMER: This update and its content do not constitute advice. Clients should not act solely on the basis of the material contained in this publication. It is intended for information purposes only and should not be regarded as specific advice. In addition, advice from proper consultant should be obtained prior to taking action on any issue dealt with this update.

© 2017 Kevane Grant Thornton LLP All rights reserved. Kevane Grant Thornton LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please visit www.grantthornton.pr for further details.