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Proposed accounting standard update for Business Combinations

April 18, 2019

The FASB issued the proposed ASU, *Business Combinations (Topic 805): Revenue from Contracts with Customers – Recognizing an Assumed Liability* [a consensus of the FASB Emerging Issues Task Force], which addresses when an entity should recognize a contract liability from a revenue contract that is assumed in a business combination. The Board also published an Invitation to Comment, *Measurement and Other Topics Related to Revenue Contracts with Customers under Topic 805*, to solicit stakeholder feedback on certain issues identified by the EITF during its consideration of Issue 18A, “Recognition under Topic 805 for an Assumed Liability in a Revenue Contract”.



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ASC 805, Business Combinations, does not provide specific guidance on when an entity should recognize, and how it should measure, liabilities from revenue contracts with customers within the scope of ASC 606, Revenue from Contracts with Customers. The proposed amendments would apply to all entities that enter into business combinations within the scope of ASC 805 after the entity has adopted ASC 606.

Under the proposed ASU, the acquirer in a business combination transaction would recognize an assumed liability from a contract with a customer if that liability meets the definition of an unsatisfied performance obligation for which either the acquiree has received consideration or consideration is due from the customer.

Under ASC 606, a performance obligation is a promise in a contract with a customer to transfer to the customer either (1) a distinct good or service (or a bundle of distinct goods or distinct services), or (2) a series of distinct goods or services that are substantially the same and share the same pattern of transfer to the customer.

The Board will determine the effective date of the proposed amendments and whether entities can early adopt the proposed guidance after it considers stakeholder feedback.

Entities would apply the proposed amendments prospectively to business combinations that occur after the effective date of a final standard.

The FASB staff also [issued](#) proposed taxonomy improvements related to the proposed ASU.

The Invitation to Comment includes a summary of the following financial reporting issues:

- payment terms and their effect on subsequent revenue recognized
- costs to fulfill a performance obligation in measuring the fair value of a contract liability for a revenue contract under ASC 805

It also contains several examples demonstrating the potential effect of including explicit guidance in the Codification for the different approaches that the Board or the Task Force might consider in responding to these issues. However, the Invitation to Comment does not include the Board's or the Task Force's preliminary views about how an entity might respond to each issue.

Comments on the proposed ASU, the related proposed taxonomy improvements, and the Invitation to Comment are due April 30.

Source:

Grant Thornton, *On the Horizon* February 21, 2019.

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