



# Asset acquisitions

**Handbook**

**May 2023**

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# Asset acquisitions – our perspective

The evaluation of whether an acquired set of assets and activities qualifies as a business may have significant accounting implications. For a transaction or event to be accounted for as a business combination, the acquired set must constitute a business. This is an important determination, given the different accounting models for the acquisition of a group of assets versus a business.

We expect that many transactions will qualify as asset acquisitions under the FASB's current definition of a business. Acquisitions of assets are accounted for using the cost accumulation and allocation model, rather than the fair value model that applies to business combinations.

In this Handbook, which supplements KPMG Handbook, [Business combinations](#), we provide additional information to help entities understand the accounting for asset acquisitions.

We hope this Handbook will enhance your understanding and assist you in accounting for asset acquisitions.

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# About this publication

This publication looks in-depth at the accounting for asset acquisitions.

## Accounting literature and scope

This publication focuses on accounting for asset acquisitions under Topic 805, Business Combinations, specifically Subtopic 805-50. The guidance in Topic 805 applicable to business combinations is addressed in KPMG Handbook, [Business combinations](#).

In addition, certain references to other topics within this publication, such as Topic 842 (leases), are addressed in other KPMG publications.

## Organization of the text

Each section of this publication includes excerpts from the FASB's Accounting Standards Codification® and overviews of the relevant requirements. We include examples to explain key concepts, and we explain the changes from legacy US GAAP.

Our commentary refers to the Codification and to other literature, where applicable. The following are examples:

- 805-10-55-4 is paragraph 55-4 of Subtopic 805-10
- ASU 2017-01.BC59 is paragraph 59 of the Basis for Conclusions to ASU 2017-01
- S-X, Rule 11-01(d) is paragraph 11-01(d) of SEC Regulation S-X, Rule 11-01(d)
- FAS 141.24 (superseded) is paragraph 24 of FASB Statement of Financial Accounting Standards No. 141, Business Combinations
- APB 16.80 (superseded) is paragraph 80 of Accounting Principles Board Opinion No. 16, Business Combinations
- AAG-RDA 3.30 is paragraph 30 of chapter 3 of the AICPA Accounting and Valuation Guide: Assets Acquired to Be Used in Research and Development Activities
- SAB Topic 5.A is paragraph A of SEC Staff Accounting Bulletins Topic 5.A as codified in ASC 340-10-S99
- 1995 AICPA Conf is the 1995 Twenty-Second Annual National Conference on Current SEC Developments

## May 2023 edition

This edition of our Handbook has been updated to incorporate new or updated interpretive guidance.

Sections and Questions that have been significantly updated or revised are identified throughout the Handbook with #.

## Future developments

The FASB currently has a project on its agenda to attempt to narrow the differences in the accounting for asset acquisitions and business combinations. This project constitutes Phase 3 of the Board's 'definition of a business' project.

The project status can be monitored on the FASB's [website](#), Improving the Accounting for Asset Acquisitions and Business Combinations (Phase 3 of the Definition of a Business Project).

## Abbreviations

We use the following abbreviations in this publication.

BC Handbook	KPMG Handbook, <a href="#">Business combinations</a>
NCI	Noncontrolling interest
NFP	Not-for-profit entity
R&D	Research and development
IPR&D	In-process research and development

## KPMG Handbook, Business combinations

Throughout this publication, we link to other guidance that we have published. The most frequent reference is to KPMG Handbook, [Business combinations](#), in which case we simply refer to the 'BC Handbook'. In all other cases, we provide the title of the publication being referred to.

# 1. Executive summary

Subtopic 805-50 provides guidance on an acquisition of assets rather than a business. The fundamental premise of accounting for business combinations differs from the premise that applies to asset acquisitions.

- Business combinations are accounted for using the acquisition method that requires the measurement of assets acquired and liabilities assumed at fair value with limited exceptions.
- Acquisitions of assets are accounted for using the cost accumulation and allocation model.

However, Subtopic 805-50 provides only limited guidance on accounting for asset acquisitions. As a result, we refer to other sources for guidance, such as the following.

- Topic 805 on business combinations, to the extent it does not conflict with the cost accumulation model – e.g. accounting for the settlement of a preexisting relationship.
- Other existing US GAAP – e.g. Topic 450 on contingencies to account for contingent consideration.
- Superseded US GAAP on purchase business combinations in Statement 141 or APB Opinion 16, both of which were consistent with the cost accumulation model – e.g. how to allocate a reduction to the carrying amounts when the fair value of the net assets acquired exceeds the purchase consideration.

The following is a summary of significant differences in accounting for an acquisition of a group of assets versus a business.

Asset acquisition	Business combination
<b>Initial measurement and allocation</b>	
The acquirer measures the assets acquired based on their cost, which is generally allocated to the assets on a relative fair value basis. See <a href="#">sections 3 and 4</a> .	The acquirer measures identifiable assets and liabilities generally at fair value.
<b>Direct acquisition-related costs</b>	
The acquirer includes direct acquisition-related costs in the cost of the acquired assets. See <a href="#">section 3.2</a> .	The acquirer expenses direct acquisition-related costs as incurred.

Asset acquisition	Business combination
<b>Contingent consideration</b>	
<p>For cash-settled contingent consideration, if the arrangement is in the scope of Topic 815, the acquirer initially measures contingent consideration at fair value with changes in fair value reported currently in earnings.</p> <p>Otherwise, the acquirer generally recognizes contingent consideration when it is probable and estimable. Subsequent changes are generally recorded as adjustments to the carrying amount of the assets.</p> <p>For contingent consideration indexed to or settled in the acquirer's equity, the acquirer may:</p> <ul style="list-style-type: none"> <li>— apply Topic 718 to account for the contingent consideration, if applicable; or</li> <li>— measure the consideration initially at fair value and subsequently account for the issuance as an equity- or liability-classified instrument under Topic 480 or Subtopic 815-40.</li> </ul> <p>See <a href="#">section 3.5</a>.</p>	<p>The acquirer recognizes contingent consideration at the acquisition date and measures it at fair value.</p> <p>Subsequent changes to the fair value of liability-classified contingent consideration are reported currently in earnings. Equity-classified contingent consideration is not remeasured after the acquisition date, and subsequent settlement is accounted for within equity.</p>
<b>Share-based consideration</b>	
<p>If equity interests are issued as consideration for the acquisition of goods to be used or consumed in the acquirer's operations, an entity may elect to apply Topic 718 to measure the consideration transferred.</p> <p>If the entity does not apply Topic 718, it measures the consideration at the fair value of the equity issued or asset received, whichever is more clearly evident and therefore more reliably measurable.</p> <p>See <a href="#">Question 3.3.10</a>.</p>	<p>Equity interests issued as consideration in a business combination are measured at fair value at the acquisition date.</p>
<b>Settlement of preexisting relationships</b>	
<p>There is no explicit guidance. We believe acquirers should apply Topic 805 by analogy. See <a href="#">section 11 of the BC Handbook</a>.</p>	<p>The acquirer recognizes a gain or loss for the effective settlement of a preexisting relationship. The acquirer measures the gain or loss either:</p> <ul style="list-style-type: none"> <li>— for a noncontractual relationship, at fair value; or</li> </ul>

Asset acquisition	Business combination
	<ul style="list-style-type: none"> <li>— for a contractual relationship, at the lesser of:               <ul style="list-style-type: none"> <li>– the amount by which the contract is favorable or unfavorable to the acquirer; or</li> <li>– the amount of stated settlement provisions in the contract available to the party to whom the contract is unfavorable.</li> </ul> </li> </ul>
<b>Measurement period</b>	
<p>No concept of a measurement period exists in an asset acquisition. The acquirer must finalize all valuations of assets acquired and liabilities assumed before the next reporting date.</p> <p>See <a href="#">Question 4.1.20</a>.</p>	<p>The acquirer may record provisional amounts for the assets acquired and liabilities assumed and adjust them during the measurement period, which ends the earlier of (1) one year from the acquisition date, and (2) when the acquirer has obtained all relevant information about the facts that existed at the acquisition date or learns that more information is not obtainable.</p>
<b>Intangible assets</b>	
<p>Intangible assets are recognized if they meet the recognition criteria in FASB Concepts Statement No. 5, which is a lower recognition threshold than the criteria for intangible assets acquired in a business combination.</p> <p>See <a href="#">section 4.2</a>.</p>	<p>Intangible assets are recognized if they meet the contractual-legal criterion or the separability criterion.</p> <p>Private companies may elect an accounting policy to subsume into goodwill noncompete agreements and customer-related intangible assets that cannot be sold or licensed separately from other assets of the business.</p>
<b>In-process research and development</b>	
<p>The portion of the purchase price allocated to IPR&amp;D at the acquisition date is expensed immediately unless it has an alternative future use.</p> <p>See <a href="#">Question 4.2.20</a>.</p>	<p>IPR&amp;D is recognized and accounted for as an indefinite-lived intangible asset until the acquirer completes or abandons the project.</p>
<b>Assembled workforce</b>	
<p>Assembled workforce is recognized as an intangible asset.</p> <p>See <a href="#">Question 4.2.30</a>.</p>	<p>Assembled workforce is recognized as a part of goodwill.</p>
<b>Reacquired rights</b>	
<p>There is no explicit guidance. The acquirer may determine the measurement basis of reacquired rights either (1) using a measurement based solely on the remaining contractual terms (by analogy to Topic 805) or (2) based on fair value.</p>	<p>The acquirer measures reacquired rights based solely on the remaining contractual terms.</p>



Asset acquisition	Business combination
<b>Acquired contingencies</b>	
<p>Acquired contingencies are accounted for under Topic 450 (contingencies). Acquired loss contingencies are recognized if they are both probable and reasonably estimable. Gain contingencies are not recognized until realized.</p> <p>See <a href="#">section 4.5</a>.</p>	<p>Acquired contingencies are recognized and measured at fair value if determinable at the acquisition date or during the measurement period. Otherwise, they are accounted for in a manner consistent with Topic 450.</p> <p>The acquirer is required to develop a systematic and rational approach to subsequent measurement, depending on the nature of the contingency.</p>
<b>Indemnification assets</b>	
<p>There is no explicit guidance. Acquirers sometimes apply Topic 805 by analogy.</p> <p>See <a href="#">section 4.5</a>.</p>	<p>The acquirer records an indemnification asset at the same time and on the same basis as the indemnified item, subject to any contractual limitations and collectibility.</p>
<b>Goodwill</b>	
<p>Goodwill is not recognized. Generally, the acquirer allocates any excess cost over the fair value of the net assets acquired on a relative fair value basis only to certain nonfinancial assets acquired.</p> <p>See <a href="#">Question 4.6.10</a>.</p>	<p>Any excess consideration transferred over the fair value of the net assets acquired is goodwill and is recognized as a separate asset.</p>
<b>Bargain purchase amount</b>	
<p>Similar to goodwill, the acquirer should allocate a bargain purchase amount only to certain nonfinancial assets on a relative fair value basis.</p> <p>See <a href="#">Question 4.6.10</a>.</p>	<p>The acquirer recognizes a bargain purchase gain immediately in earnings.</p>
<b>Deferred taxes</b>	
<p>Because neither goodwill nor a bargain purchase gain are recognized, if the cost differs from the tax bases of the assets acquired and liabilities assumed, the simultaneous equations method is used to calculate the deferred tax assets and liabilities and the resulting adjustments to the related assets' and liabilities' carrying amounts.</p> <p>See <a href="#">section 4.7</a>.</p>	<p>Recognizing deferred tax assets and liabilities results in increases or decreases to goodwill or a bargain purchase gain. See section 6 of KPMG Handbook, <a href="#">Accounting for income taxes</a>.</p>

## Disclosures

Subtopic 805-50 does not require specific disclosures related to asset acquisitions. Acquirers should consider relevant disclosure requirements in other Subtopics that may apply to the transaction, such as (not exhaustive):

- Subtopic 350-30 on intangible assets;
- Subtopic 360-10 on property, plant and equipment;
- Subtopic 450-20 on loss contingencies;
- Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets
- Subtopic 730-10 on R&D costs; and
- Subtopic 845-10 on nonmonetary exchanges.

## 2. Scope of Subtopic 805-50

### Detailed contents

**Item significantly updated in this edition: #**

#### Questions

- 2.1.10 Does the guidance on asset acquisitions apply to a primary beneficiary when it initially consolidates a VIE that is not a business? #
- 2.1.20 Is the Topic 805 definition of a business the same as the SEC's definition used to determine reporting requirements?
- 2.1.30 Is it possible to have a reverse asset acquisition?

#### Example

- 2.1.10 Reverse asset acquisition



## Excerpt from ASC 805-50

### > Entities

**15-2** The guidance in the Acquisition of Assets Rather than a Business Subsections applies to all entities.

### > Transactions

**15-3** The guidance in the Acquisition of Assets Rather than a Business Subsections applies to a transaction or event in which assets acquired and liabilities assumed do not constitute a **business**.

**15-4** The guidance in the Acquisition of Assets Rather than a Business Subsections does not apply to the initial measurement and recognition by a primary beneficiary of the assets and liabilities of a variable interest entity (VIE) when the VIE does not constitute a business. Guidance for such a VIE is provided in Section 810-10-30.

The Acquisition of Assets Rather than a Business subsections of Subtopic 805-50 provide authoritative guidance on accounting for asset acquisitions. This subsection applies to transactions that do not meet the definition of a business.

The evaluation of whether an acquired set of assets and activities constitutes a business can be particularly challenging. See section 2 of the [BC Handbook](#) for guidance on this evaluation.

Other US GAAP applies to transfers of assets between entities under common control. Those transactions are not in the scope of this publication. See section 28 of the [BC Handbook](#).



### Question 2.1.10#

**Does the guidance on asset acquisitions apply to a primary beneficiary when it initially consolidates a VIE that is not a business?**

**Interpretive response:** No. The guidance on asset acquisitions does not apply to a primary beneficiary when it initially consolidates a VIE that is not a business. [\[805-50-15-4\]](#)

In these circumstances, Subtopic 810-10 requires the primary beneficiary to recognize and measure the assets, liabilities and NCI of the newly consolidated VIE under Subtopic 805-20 as if the acquisition were a business combination. However, because the VIE is not a business, the primary beneficiary is precluded from recognizing goodwill and may recognize a gain or loss on initial consolidation (unless the primary beneficiary and the VIE are under common control). [\[810-10-30-1, 30-4\]](#)

While Subtopic 810-10 generally refers to Subtopic 805-20 for initial recognition and measurement, it does not provide specific guidance on the subsequent accounting for the assets and liabilities recognized. This has led to diversity in

practice on certain topics such as contingent consideration and IPR&D. The FASB recognized this diversity and added the accounting for contingent consideration and IPR&D in a VIE that is not a business to its agenda as part of the Improving the Accounting for Asset Acquisitions and Business Combinations project. That project was subsequently removed from the FASB's agenda; therefore, we believe diversity in practice will continue and the following would be acceptable for contingent consideration and IPR&D.

### **Contingent Consideration**

We believe contingent consideration should be initially recognized at fair value consistent with the initial recognition and measurement requirements in the business combinations guidance. While Topic 810 does not provide specific guidance on the subsequent measurement of contingent consideration, we believe the contingent consideration should be remeasured to fair value each reporting period with changes in fair value reported in earnings consistent with the business combinations guidance used for initial recognition and measurement. See section 12 of the [BC Handbook](#) for initial and subsequent accounting for contingent consideration. [810-10-30-3]

However, as a result of the diversity in practice, we believe other approaches may also be acceptable for the subsequent accounting for contingent consideration depending on the facts and circumstances.

### **IPR&D**

IPR&D is initially recognized and measured at fair value consistent with the business combinations guidance in Subtopic 805-20. However, there is diversity in the subsequent accounting and we believe either of the following approaches are acceptable.

- The amount initially allocated and recognized for IPR&D is expensed immediately in accordance with Subtopic 730-10 (research and development) unless it has an alternative future use, in which case it is accounted for as an intangible asset (see Question 4.2.20). Under this approach, the entity follows the asset acquisition approach because of the specific guidance in Subtopic 730-10.
- The IPR&D continues to be accounted for as an indefinite-lived intangible asset consistent with IPR&D acquired in a business combination. Under this approach, the entity continues to follow the business combinations guidance consistent with the initial recognition and measurement of the IPR&D as required under Subtopic 810-10. See section 17 of the [BC Handbook](#) for additional guidance on the accounting for IPR&D.

See chapter 7 of KPMG Handbook, [Consolidation](#), for additional discussion about consolidating a VIE.

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### Question 2.1.20

**Is the Topic 805 definition of a business the same as the SEC's definition used to determine reporting requirements?**

**Interpretive response:** No. The definition of a business for SEC reporting purposes is different from the definition in Subtopic 805-10 for US GAAP accounting purposes. [S-X 11-01(d)]

The SEC's Division of Corporation Finance notes that it is possible for an entity to conclude that an acquired set of net assets meets the definition of a business in Regulation S-X, but to account for the acquired net assets as an asset acquisition under Topic 805, and vice versa. The SEC staff's evaluation of whether an acquisition is of a business or assets focuses primarily on whether the nature of the revenue-producing activity generally remains the same after the acquisition. [FRM 2010.1 – 2010.2]

The SEC's definition of a business is not aligned with the FASB's definition of a business. See [section 5](#) for further discussion of SEC reporting considerations related to asset acquisitions, including an expanded discussion of the SEC's definition of a business.



### Question 2.1.30

**Is it possible to have a reverse asset acquisition?**

**Interpretive response:** Yes. A reverse acquisition is an acquisition in which one party is the acquiree from a legal perspective but is the acquirer from an accounting perspective (i.e. under US GAAP).



### Excerpt from ASC 805-40

**05-2** As one example of a reverse acquisition, a private operating entity may want to become a public entity but not want to register its equity shares. To become a public entity, the private entity will arrange for a public entity to acquire its equity interests in exchange for the equity interests of the public entity. In this situation, the public entity is the legal acquirer because it issued its equity interests, and the private entity is the legal acquiree because its equity interests were acquired. However, application of the guidance in paragraphs 805-10-55-11 through 55-15 results in identifying:

- a. The public entity as the acquiree for accounting purposes (the accounting acquiree)
- b. The private entity as the acquirer for accounting purposes (the accounting acquirer).

In the scenario illustrated in this example, the public entity (which is the accounting acquiree) meets the definition of a business and the private entity (which is the accounting acquirer) accounts for the transaction as a business combination.

For example, Public Co. acquires all the shares of Private Co. on January 1, Year 3, in a transaction accounted for as a reverse acquisition.

**Pre-reverse acquisition**



**Post-reverse acquisition**



Private Co. becomes the predecessor, and its historical financial statements are reflected in the public entity’s filings once the transaction occurs.

If the public entity (accounting acquiree) does not meet the definition of a business, the private entity (accounting acquirer) treats the acquisition as an asset acquisition.

However, when the private entity (accounting acquirer) also does not meet the definition of a business, we are aware of situations in which the SEC staff may not require the accounting acquirer’s historical results to be presented as the predecessor, depending on the facts and circumstances. We recommend consulting with the auditors or accounting advisors in this situation.

Additionally, the SEC staff considers the acquisition of a private operating company by a nonoperating public shell company to be in substance a capital transaction, rather than a business combination. This transaction is equivalent to the issuance of shares by the private company for the net monetary assets of the shell company, accompanied by a recapitalization. This type of transaction is typically referred to as a reverse recapitalization. See sections 4 and 9 of the [BC Handbook](#). [FRM 12100]

 **Example 2.1.10**  
**Reverse asset acquisition**

A publicly listed life sciences company (PubCo) unsuccessfully pursued completion of a drug compound. Before the transaction described in the next paragraph, PubCo abandoned all R&D activities and terminated most of its employees. Remaining assets included cash and a minor amount of fixed assets.

PubCo is targeted by a private company (PrivateCo) looking to become a public company. The parties arrange a transaction such that PubCo acquires shares of PrivateCo in exchange for its publicly traded shares.

After considering the guidance in paragraphs 805-10-55-11 to 55-15, the parties conclude that PrivateCo is the accounting acquirer. Additionally, after analysis of the guidance on the definition of a business, the parties determine that PubCo does not constitute a business. Therefore, the transaction is accounted for as a reverse acquisition of assets, and PrivateCo records the assets of PubCo under Subtopic 805-50.

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# 3. Cost of acquired assets

## Detailed contents

### Item significantly updated in this edition: #

#### 3.1 Overview

#### 3.2 Direct acquisition-related costs

##### Questions

- 3.2.10 What types of costs are considered transaction costs?
- 3.2.20 Are costs incurred in issuing equity and debt to fund the acquisition included in the cost of the acquired assets?

#### 3.3 Consideration in the form of noncash assets

##### Questions

- 3.3.05 How does an entity determine cost when it acquires assets for noncash consideration?
- 3.3.10 How does the acquirer measure equity instruments issued as consideration?
- 3.3.20 How does the accounting acquirer determine the cost of the acquired assets in a reverse asset acquisition?

#### 3.4 Acquiring an interest in an entity that holds assets

##### Questions

- 3.4.10 How does the acquirer measure a previously held equity interest in a step acquisition of assets? #
- 3.4.20 How is NCI measured when less than 100% of the equity interests in an entity are acquired?
- 3.4.25 How does the acquirer account for the contribution of previously controlled assets to an entity in exchange for a controlling financial interest?
- 3.4.30 If the acquirer's accounting policy is to initially measure NCI at fair value, is a noncontrolling discount applied?

##### Examples

- 3.4.10 Previously held equity interest in an asset acquisition
- 3.4.20 NCI in an asset acquisition
- 3.4.30 NCI when the acquirer transfers previously controlled assets
- 3.4.40 NCI when there is cash and non-cash consideration, and cash is distributed

### **3.5 Contingent consideration**

#### **Question**

3.5.10 How does an entity account for contingent consideration?

#### **Example**

3.5.10 Contingent consideration in an asset acquisition

### **3.6 Transactions not part of an asset acquisition**

#### **Questions**

3.6.10 How does the acquirer determine which elements of a transaction are accounted for as part of an asset acquisition versus separately?

3.6.20 How does the acquirer account for the settlement of a preexisting relationship with the acquirer?



## Excerpt from ASC 805-50

### > Acquisition Date Recognition of Consideration Exchanged

**25-1** Assets commonly are acquired in exchange transactions that trigger the initial recognition of the assets acquired and any liabilities assumed. If the consideration given in exchange for the assets (or net assets) acquired is in the form of assets surrendered (such as cash), the assets surrendered shall be derecognized at the date of acquisition. If the consideration given is in the form of liabilities incurred or **equity interests** issued, the liabilities incurred and equity interests issued shall be initially recognized at the **date of acquisition**. However, if the assets surrendered are nonfinancial assets or **in substance nonfinancial assets** within the scope of Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, the assets surrendered shall be derecognized in accordance with the guidance in Subtopic 610-20 and the assets acquired shall be treated as noncash consideration in accordance with Subtopic 610-20.

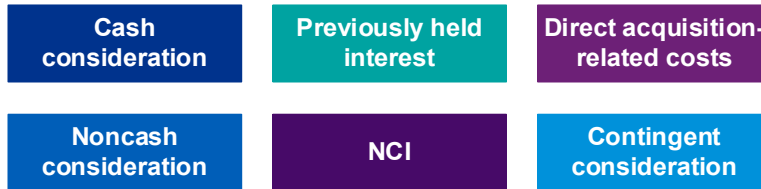
### > Determining Cost

**30-1** Paragraph 805-50-25-1 discusses exchange transactions that trigger the initial recognition of assets acquired and liabilities assumed. Assets are recognized based on their cost to the acquiring entity, which generally includes the transaction costs of the asset acquisition, and no gain or loss is recognized unless the **fair value** of noncash assets given as consideration differs from the assets' carrying amounts on the acquiring entity's books. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply. If the consideration given is nonfinancial assets or **in substance nonfinancial assets** within the scope of Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, the assets acquired shall be treated as noncash consideration and any gain or loss shall be recognized in accordance with Subtopic 610-20.

**30-2** Asset acquisitions in which the consideration given is cash are measured by the amount of cash paid, which generally includes the transaction costs of the asset acquisition. However, if the consideration given is not in the form of cash (that is, in the form of noncash assets, liabilities incurred, or **equity interests** issued), measurement is based on either the cost which shall be measured based on the fair value of the consideration given or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and, thus, more reliably measurable. For transactions involving nonmonetary consideration within the scope of Topic 845, an acquirer must first determine if any of the conditions in paragraph 845-10-30-3 apply. If the consideration given is nonfinancial assets or in substance nonfinancial assets within the scope of Subtopic 610-20, the assets acquired shall be treated as noncash consideration and any gain or loss shall be recognized in accordance with Subtopic 610-20.

### 3.1 Overview

Assets acquired in an asset acquisition are recognized based on their cost to the acquirer. Cost includes the following. [805-50-30-1 – 30-2]



Cost excludes amounts attributable to other transactions that are not part of the asset acquisition – e.g. services provided by the seller.

### 3.2 Direct acquisition-related costs

An acquirer includes direct acquisition-related costs in the cost of the acquired assets. These costs are described as ‘transaction costs’. [805-50-30-1]

**Question 3.2.10**  
**What types of costs are considered transaction costs?**

**Interpretive response:** Transaction costs are not defined. We believe transaction costs include direct costs to acquire the assets. [FAS 141.24]

These might include, for example, fees paid to external advisors, attorneys and accountants. Indirect costs, such as general and administrative expenses, salaries and benefits of employees, are not directly attributable to the acquisition of the assets and should not be included in the overall cost measurement of the assets acquired. [FAS 141.24]

**Question 3.2.20**  
**Are costs incurred in issuing equity and debt to fund the acquisition included in the cost of the acquired assets?**

**Interpretive response:** No. Costs incurred in raising equity or debt to fund the acquisition of assets are accounted for under other applicable guidance.


Costs incurred when issuing equity should be accounted for as a reduction of the proceeds of the offering. Costs incurred when raising debt to fund an asset acquisition are reported as a direct deduction from the face amount of the debt and amortized into interest expense. [SAB Topic 5A, 835-30-45-1A, 45-3]

If an investment adviser provides both advisory services and debt or equity financing related to the acquisition, the acquirer should allocate the adviser’s fees to those elements based on the relative fair values of the adviser’s services. [SAB Topic 2A.6]

See [Question 4.4.10](#) for the accounting for unamortized debt issuance costs related to debt assumed by the acquirer.

### 3.3 Consideration in the form of noncash assets

An acquirer includes both cash and noncash consideration transferred in the cost of the assets acquired. [805-50-30-2]



**Question 3.3.05**  
**How does an entity determine cost when it acquires assets for noncash consideration?**

**Interpretive response:** Determining the cost of the assets acquired may be challenging if the consideration paid is not cash. Paragraph 805-50-30-2 provides general guidance and includes reference to both Topic 845 (nonmonetary transactions) and Subtopic 610-20 (derecognition of nonfinancial assets).

We believe it is important to consider the nature of the exchange as well as the nature of the assets relinquished to determine the appropriate guidance to follow. In particular, the nature of the assets relinquished may put the transaction in the scope of other US GAAP, thereby affecting the measurement of the cost of the assets acquired. For example, if the assets relinquished are a business, an entity applies the guidance in Subtopic 810-10 on deconsolidation. [610-20-15-4(b), 810-10-40-5]

The table below summarizes the basis for determining the cost of the assets acquired based on the outbound noncash consideration assuming all the requirements to derecognize the outbound asset(s) have been met under the applicable GAAP.

Outbound consideration	Basis for measuring acquired assets
Asset for which the acquirer retains control	Carrying amount of the asset transferred (by analogy to paragraph 805-30-30-8). See <a href="#">Question 3.4.25</a> .
Controlling financial interest in a business	Fair value of the assets acquired. [810-10-40-5]
Financial assets	Fair value of the assets acquired. [860-20-30-1]
Nonfinancial assets (or in-substance nonfinancial assets) transferred to a noncustomer	Fair value (or stand-alone selling price of the goods or nonfinancial assets transferred if fair value cannot be reasonably estimated). [610-20-32-2 – 32-5]

Outbound consideration	Basis for measuring acquired assets
Good or service to a customer	Fair value of the assets acquired (or stand-alone selling price of the goods or nonfinancial assets transferred if fair value cannot be reasonably estimated). [606-10-32-21 – 32-22]
Acquirer’s equity instruments	Grant-date fair value [718-10-30-2 – 30-3] <b>or</b> Acquisition-date fair value of equity instruments issued, or fair value of assets acquired, whichever is more clearly evident. [805-50-30-2] See Question 3.3.10.

If none of the above guidance applies, certain nonmonetary transactions are accounted for under Subtopic 845-10. The general principle of Topic 845 is to measure the transaction at fair value. However, certain transactions are required to be measured at carryover basis in accordance with the guidance in Subtopic 845-10, if they:

- involve assets whose fair values are not determinable within reasonable limits;
- are between entities in the same line of business to facilitate sales to customers or potential customers; or
- lack commercial substance.

Question 3.3.10

**How does the acquirer measure equity instruments issued as consideration?**

**Background:** In March 2021, the FASB considered an agenda request to clarify whether equity instruments issued in an asset acquisition are either nonemployee share-based payments in the scope of Topic 718 (share-based payments) or in the scope of the Subtopic 805-50 asset acquisition model. If the asset acquired is considered a ‘[good] to be used or consumed in the grantor’s own operations’ it is in the scope of Topic 718. However, there is diversity in how that scoping literature is interpreted.

The FASB decided not to add the project to its agenda. In that discussion, the Board acknowledged a potential conflict in scoping literature and that entities could make a reasonable accounting policy election to determine the appropriate scope of the transaction. Further, multiple Board members indicated acceptance with diversity in practice on this issue.

**Interpretive response:** Based on the FASB discussions, for share-based payments issued in asset acquisitions for goods to be used or consumed in the

acquirer's operations (e.g. the acquisition of nonfinancial assets), we believe the acquirer can elect to apply:

- Topic 718; or
- Subtopic 805-50 as well as other GAAP related to equity instruments (e.g. Topic 480 and Topic 815).

The policy election should be consistently applied (i.e. not a transaction-by-transaction election). The difference in policy could result in different amounts being included in the cost basis of the asset. For example, the measurement dates and timing of recognition could be different.

If the transaction is not the acquisition of goods to be consumed in the acquirer's operations, the acquirer applies Subtopic 805-50 as well as other GAAP related to equity instruments (e.g. Topic 480 and Topic 815).

#### Topic 718 applied

An entity measures equity-classified share-based payments based on a grant-date fair value-based measurement. The entity also evaluates vesting conditions and classification of the award as either equity or a liability under Topic 718. The value of an award probable of vesting is included in the cost of assets acquired, in the same manner as if the entity paid cash for the assets. [718-10-30-2 – 30-3]

For further discussion on nonemployee awards, see KPMG Handbook, [Share-based payments](#).

#### Topic 718 not applied

An entity measures the cost of the assets based on the fair value of the equity instruments issued (as of the acquisition date) or the fair value of the assets acquired – whichever is more clearly evident and therefore more reliably measurable.

In addition, the entity evaluates whether the instruments should be classified as equity, temporary equity or a liability under Topic 480 and Topic 815. If the instrument is liability-classified, any subsequent changes in fair value are recorded in earnings. Equity-classified contingent consideration is not remeasured following the acquisition date, and its subsequent settlement is accounted for within equity. For further discussion on classification as debt or equity, see KPMG Handbook, [Debt and equity financing](#). [805-50-30-2]



#### Question 3.3.20

**How does the accounting acquirer determine the cost of the acquired assets in a reverse asset acquisition?**

**Interpretive response:** Because the accounting acquirer in a reverse asset acquisition is the legal acquiree, it does not transfer consideration and therefore must determine a hypothetical amount of consideration paid in the exchange.

The hypothetical consideration is the fair value of the equity interests that the accounting acquirer would have had to issue to give the owners of the legal parent the same percentage equity interest in the combined entity as they

actually retained in the transaction. See Example 9.8 in the [BC Handbook](#).  
[\[805-40-30-2\]](#)

## 3.4 Acquiring an interest in an entity that holds assets

An entity may acquire assets by obtaining a controlling interest in a legal entity that holds the assets. For example, an acquirer may hold a 20% interest in an entity that holds assets (e.g. real estate) that do not constitute a business and obtain an additional 50% interest in the entity so that it now holds a 70% interest. In that circumstance, the acquirer needs to determine how to account for its previously held interest as well as the other investors' noncontrolling interest.



### Question 3.4.10#

**How does the acquirer measure a previously held equity interest in a step acquisition of assets?**

**Interpretive response:** We believe an acquirer generally should value the previously held equity interest in an asset acquisition at carryover basis.

Subtopic 805-50 does not specifically address situations in which an entity obtains control of assets in which it previously held an interest. However, it indicates that assets are recognized based on their cost to the acquiring entity. We believe measuring the previously held equity interest at its carryover basis is the approach that is most consistent with this principle. [\[805-50-30-1\]](#)

However, we are aware of some diversity in practice in this area. We understand that, in certain circumstances, some entities remeasure a previously held equity interest to fair value at the acquisition date by analogy to the guidance on business combinations. In an asset acquisition, a gain is not recognized. Instead, under this approach, the acquirer appropriately allocates the fair value of the equity interest to the acquired assets. [\[805-30-30-1\]](#)



### Example 3.4.10

**Previously held equity interest in an asset acquisition**

Investor holds a 20% equity interest in Investee with a carrying amount of \$40. Investor accounts for Investee under the equity method. Investor acquires the remaining 80% interest in Investee for \$240. Investee's only assets are land and an unoccupied building as follows.

	Carrying amount	Fair value
Land	\$ 50	\$100
Building	150	200



The transaction is accounted for as an asset acquisition.

We believe there are multiple acceptable approaches to allocating cost in this scenario. Under one approach, Investor includes the carrying amount of its previously held interest (\$40) in the cost of the land and building, and allocates the total cost on a relative fair value basis.

Investor records the following journal entry to reflect the acquisition in its consolidated financial statements.

	<i>Debit</i>	<i>Credit</i>
Land <sup>1</sup>	93	
Building <sup>2</sup>	187	
Cash		240
Investment in Investee		40
<i>To record acquisition of land and building.</i>		
Notes:		
1. $(\$100 / (\$100 + \$200)) \times \$280$ .		
2. $(\$200 / (\$100 + \$200)) \times \$280$ .		

Under another approach, Investor allocates the incremental cost of acquiring the 80% interest based on the relative fair values at the acquisition date to the previous proportionate carrying amount of each asset. Investor records the following journal entry to reflect the acquisition in its consolidated financial statements.

	<i>Debit</i>	<i>Credit</i>
Land <sup>1</sup>	90	
Building <sup>2</sup>	190	
Cash		240
Investment in Investee		40
<i>To record acquisition of land and building.</i>		
Notes:		
1. $(20\% \times \$50) + ((\$100 / (\$100 + 200)) \times \$240)$ .		
2. $(20\% \times \$150) + ((\$200 / (\$100 + \$200)) \times \$240)$ .		

**Question 3.4.20**

**How is NCI measured when less than 100% of the equity interests in an entity are acquired?**

**Interpretive response:** Subtopic 805-50 does not specifically address this fact pattern. We believe an acquirer has an accounting policy election to measure NCI in an asset acquisition either at (1) carryover basis or (2) fair value when the acquirer obtains a controlling interest in the entity that holds the assets. The entity should apply the accounting policy consistently.

- **Carryover basis.** Under this approach, NCI is measured based on the carrying amounts within the acquired entity. This approach was commonly used before adopting Statement No. 141(R). In the subsequent accounting under this approach, the proportion of the carryover basis allocated to the net assets acquired is attributed to NCI when such amounts are recognized in the income statement.
- **Fair value.** Under this approach, NCI is measured at fair value on the date of acquisition. This approach analogizes to the business combinations guidance. For guidance on estimating the fair value of NCI, see section 19 of the [BC Handbook](#). [805-30-30-1]

If an entity has an existing accounting policy for measuring NCI in an asset acquisition, it needs to follow Topic 250 (accounting changes and error corrections) to change its policy, including demonstrating that the change is preferable. [250-10-45-2]

If a subsidiary issues its own shares as consideration transferred in an asset acquisition, those shares should be presented as NCI and measured in the same manner as shares of the parent company as described in [Question 3.3.10](#).

See [Question 3.4.25](#) when an entity transfers a previously controlled asset to an acquired entity with NCI.



### Example 3.4.20 NCI in an asset acquisition

Parent acquires an 80% interest in Subsidiary for \$240. Subsidiary's only assets are land and an unoccupied building as follows.

	Carrying amount	Fair value
Land	\$ 50	\$100
Building	150	200

The transaction is accounted for as an asset acquisition.

#### Approach 1: Carryover basis

If Parent's accounting policy is to initially measure NCI in an asset acquisition at carryover basis, it calculates the amount of NCI based on the carrying amount in Subsidiary's financial statements:  $\$200 \times 20\% = \$40$ . Parent records the following journal entry in its consolidated financial statements.

	<i>Debit</i>	<i>Credit</i>
Land <sup>1</sup>	93	
Building <sup>2</sup>	187	
Cash		240
Noncontrolling interest		40
<i>To record acquisition of building and related NCI.</i>		

Notes:

1.  $(\$100 / (\$100 + \$200)) \times \$280$ .
2.  $(\$200 / (\$100 + \$200)) \times \$280$ .

Subsequently, Parent attributes the \$40 of carryover basis allocated to the land (\$13) and building (\$27) to NCI when such amounts are recognized in the income statement. For example, if Parent recognizes \$10 of depreciation expense in the following year, \$1.44 ( $\$10 \times (\$27 / \$187)$ ) will be attributed to NCI.

### Approach 2: Fair value

If Parent's accounting policy is to initially measure NCI in an asset acquisition at fair value, it calculates fair value under Topic 820 (assumed to be \$60 in this example). Parent records the following journal entry in its consolidated financial statements.

	<i>Debit</i>	<i>Credit</i>
Land	100	
Building	200	
Cash		240
Noncontrolling interest		60
<i>To record acquisition of building and related NCI.</i>		

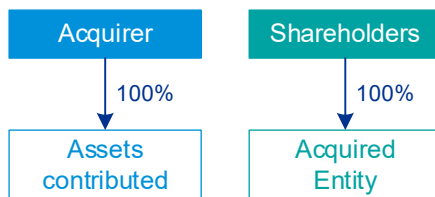


### Question 3.4.25

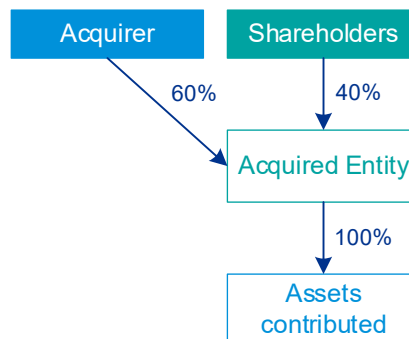
**How does the acquirer account for the contribution of previously controlled assets to an entity in exchange for a controlling financial interest?**

**Background:** An acquirer contributes previously controlled noncash assets in exchange for a controlling financial interest in another entity in a transaction accounted for as an asset acquisition. No other consideration is transferred. The following diagram illustrates the transaction.

#### Before transaction



#### After transaction



**Interpretive response:** This transaction raises questions about the accounting for the contributed assets, the measurement of NCI and the measurement of the net assets acquired.

### Contributed assets

This transaction involves a reduction in the acquirer's ownership interest in the contributed assets while maintaining control. In the absence of specific guidance in Subtopic 850-50, we believe entities should continue to recognize the contributed noncash assets at carryover basis. This is by analogy to the business combinations guidance that requires an entity to measure net assets that it controls before and after the transaction at their carrying amounts immediately before the acquisition date, with no gain or loss recognized in earnings. This would be the case even when the acquirer obtains less than 100% of the equity interests in the acquired entity. [805-30-30-8]

If the acquirer contributes cash, we believe any cash immediately distributed to the seller is accounted for as consideration transferred. Cash that stays in the entity is accounted for similar to noncash contributed assets.

### Measurement of NCI

In this transaction, we believe there are effectively two components that affect the measurement of NCI in the acquired entity.

- The NCI's proportionate interest in the carrying amount of the contributed assets immediately preceding the transaction. This is consistent with the accounting for a decrease in ownership of a consolidated subsidiary while maintaining control. [805-30-30-8, 810-10-45-23]
- The value of the acquired entity's NCI (excluding the contributed assets) measured based on the acquirer's accounting policy for measuring NCI in an asset acquisition, either at carryover basis or fair value (see [Question 3.4.20](#)).

### Measurement of acquired assets

While the contributed assets are measured at carryover basis, we believe the total cost of the new assets acquired should include all of the following.

- The fair value of the ownership interest in the contributed assets given up. This is consistent with the general measurement principles for noncash consideration in Subtopic 805-50 – i.e. the cost is based on the fair value of the NCI or the fair value of the net assets acquired, whichever is more clearly evident and therefore more reliably measurable. [805-30-30-2]
- The measurement of the NCI in the acquired entity (excluding the contributed assets), which is based on carryover basis or fair value (see above).
- Any other consideration transferred to the seller.

Any difference between the carrying amount of the NCI related to the contributed assets and fair value of the interest given up should be recognized in additional paid-in capital. [810-10-45-23]

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### Example 3.4.30

#### NCI when the acquirer transfers previously controlled assets

Parent acquires an 80% controlling financial interest in Subsidiary by contributing cash and equipment to Subsidiary. The cash and equipment will remain in Subsidiary and will not be transferred to the seller. Before this transaction, Subsidiary had only a single building.

The following table summarizes the carrying amount and fair value of the assets contributed and acquired.

	Carrying amount	Fair value
Equipment	\$500	\$600
Cash	200	200
<b>Assets contributed</b>	<b>\$700</b>	<b>\$800</b>
<b>Building acquired</b>	<b>\$175</b>	<b>\$200</b>

The transaction is accounted for as an asset acquisition. No gain or loss is recognized on the transfer of the cash or equipment because Parent retains control of those assets (i.e. the assets are measured at carryover basis).

Parent includes the fair value of the ownership interest in the contributed assets given up ( $\$160 = \$800 \times 20\%$ ) as part of the cost of the building.

The NCI in Subsidiary is partially measured based on the carrying amount of the contributed assets and then, depending on Parent's accounting policy, at carryover basis or fair value of Subsidiary without the contributed assets.

This example ignores the potential considerations of a control premium (see [Question 3.4.30](#)).

#### Approach 1: Carryover basis

Parent calculates the NCI in Subsidiary excluding the contributed assets based on the carrying amount in Subsidiary's financial statements. Therefore, the total cost of the building is the sum of (1) the fair value of the ownership interest in the contributed assets given up and (2) the carryover basis of the building.

Under this approach, Parent records the following journal entry in its consolidated financial statements.

	<i>Debit</i>	<i>Credit</i>
Building <sup>1</sup>	195	
Noncontrolling interest <sup>2</sup>		175
Additional paid-in capital <sup>3</sup>		20
<i>To record acquisition of building and related NCI.</i>		
Notes:		
1. $\$160$ (fair value of ownership interest given up in contributed assets, or $20\% \times \$800$ ) + $\$35$ ( $20\% \times \$175$ carrying amount of building).		

2.  $\$140$  ( $20\% \times \$700$  carrying amount of contributed assets) +  $\$35$  ( $20\% \times \$175$  carrying amount of building).
3.  $\$160$  (fair value of ownership interest given up in contributed assets) -  $\$140$  ( $20\% \times \$700$  carrying amount of contributed assets).

Under this approach, NCI is recorded at \$175 while NCI’s proportionate share of Subsidiary’s assets based on ownership percentages is \$179:  $20\% \times \$895$  ( $\$195$  building +  $\$700$  carrying amount of contributed assets).

Therefore, when the assets in Subsidiary (including the contributed assets) are recognized in the income statement, Parent will need to determine the amount attributed to the NCI in a manner other than the ownership percentages. In this example, Parent will attribute to NCI:

- 20% of the carryover basis (\$700) when recognized in the income statement, consistent with its ownership percentage; and
- \$35 or 17.9% ( $\$35 / \$195$ ) of the building depreciation expense.

**Approach 2: Fair value**

Parent calculates the NCI in Subsidiary excluding the contributed assets based on fair value under Topic 820 (assumed to be \$40 in this example). Therefore, the total cost of the building is the sum of (1) the fair value of the ownership interest in the contributed assets given up and (2) the fair value of NCI excluding the contributed assets.

Under this approach, Parent records the following journal entry in its consolidated financial statements.

	<i>Debit</i>	<i>Credit</i>
Building <sup>1</sup>	200	
Noncontrolling interest <sup>2</sup>		180
Additional paid-in capital <sup>3</sup>		20
<i>To record acquisition of building and related NCI.</i>		
Notes:		
1. $\$160$ (fair value of ownership interest given up in contributed assets, or $20\% \times \$800$ ) + $\$40$ (fair value of NCI excluding contributed assets).		
2. $\$140$ ( $20\% \times \$700$ carrying amount of contributed assets) + $\$40$ (fair value of NCI excluding contributed assets).		
3. $\$160$ (fair value of ownership interest given up in contributed assets) - $\$140$ (20% of the carrying amount of contributed assets).		

Example 3.4.40

**NCI when there is cash and non-cash consideration, and cash is distributed**

Parent is 100% owned by Seller. Parent acquires 80% interest in Subsidiary by contributing cash and equipment. Before the transaction, Subsidiary had only a single building. Immediately after the contribution, Subsidiary distributes a

portion of the cash to Seller who retains a 20% NCI. The remaining cash stays with Subsidiary.

The following table summarizes the carrying amount and the fair value of the assets contributed and acquired.

	Carrying amount	Fair value
Equipment	\$ 50	\$ 100
Cash	160	160
<b>Total contributed</b>	<b>210</b>	<b>260</b>
Less: Cash distributed to Seller	(135)	(135)
<b>Assets remaining in Sub</b>	<b>75</b>	<b>125</b>
<b>Building acquired</b>	<b>\$ 150</b>	<b>\$ 200</b>

The transaction is accounted for as an asset acquisition. No gain or loss is recognized on the transfer of the cash or equipment that stays in Subsidiary because Parent retains control of those assets (i.e. the assets are measured at carryover basis).

The cash that is immediately distributed to Seller is treated as consideration transferred directly to the former owners and is part of the cost of the acquired assets.

Parent includes the fair value of the ownership interest in the contributed assets given up ( $\$25 = (\$100 \text{ equipment} + \$25 \text{ cash}) \times 20\%$ ) as part of the cost of the building.

The NCI in Subsidiary is partially measured based on the carrying amount of the contributed assets and then, depending on Parent's accounting policy, at carryover basis or fair value of Subsidiary without the contributed assets.

This example ignores the potential considerations of a control premium (see [Question 3.4.30](#)).

### Approach 1: Carryover basis

Parent calculates the NCI in Subsidiary excluding the contributed assets based on the carrying amount in Subsidiary's financial statements. Therefore, the total cost of the building is the sum of (1) the fair value of the ownership interest in the contributed assets given up and (2) the carryover basis of the building.

Under this approach, Parent records the following journal entry in its consolidated financial statements.

	<i>Debit</i>	<i>Credit</i>
Building <sup>1</sup>	190	
Noncontrolling interest <sup>2</sup>		45
Additional paid-in capital <sup>3</sup>		10
Cash <sup>4</sup>		135
<i>To record acquisition of building and related NCI.</i>		

Notes:

1. \$25 (fair value of ownership interest given up in contributed assets, or 20% × \$125) + \$30 (20% × \$150 carrying amount of building) + \$135 cash distributed to Seller.
2. \$15 (20% × \$75 carrying amount of contributed assets) + \$30 (20% × \$150 carrying amount of building).
3. \$25 (fair value of ownership interest given up in contributed assets) - \$15 (20% × \$75 carrying amount of contributed assets).
4. Cash distributed to Seller.

Under this approach, NCI is recorded at \$45 while NCI's (Seller's) proportionate share of Subsidiary's assets based on ownership percentages is \$53: 20% × \$265 (\$190 building + \$75 carrying amount of contributed assets).

Therefore, when the assets in Subsidiary (including the contributed assets) are recognized in the income statement, Parent will need to determine the amount attributed to the NCI in a manner other than the ownership percentages. In this example, Parent will attribute to NCI:

- 20% of the carryover basis (\$75) when recognized in the income statement, consistent with its ownership percentage.
- \$30 or 15.8% (\$30 / \$190) of the building depreciation expense.

**Approach 2: Fair value**

Parent calculates the NCI in Subsidiary excluding the contributed assets based on fair value under Topic 820 (assumed to be \$40 in this example). Therefore, the total cost of the building is the sum of (1) the fair value of the ownership interest in the contributed assets given up and (2) the fair value of NCI excluding the contributed assets.

Under this approach, Parent records the following journal entry in its consolidated financial statements.

	<i>Debit</i>	<i>Credit</i>
Building <sup>1</sup>	200	
Noncontrolling interest <sup>2</sup>		55
Additional paid-in capital <sup>3</sup>		10
Cash <sup>4</sup>		135
<i>To record acquisition of building and related NCI.</i>		

Notes:

1. \$25 (fair value of ownership interest given up in contributed assets, or 20% × \$125) + \$40 (fair value of NCI excluding contributed assets) + \$135 cash distributed to Seller.
2. \$15 (20% × \$75 carrying amount of contributed assets) + \$40 (fair value of NCI excluding contributed assets).
3. \$25 (fair value of ownership interest given up in contributed assets) - \$15 (20% of \$75 carrying amount of contributed assets).
4. Cash distributed to Seller.





### Question 3.4.30

**If the acquirer's accounting policy is to initially measure NCI at fair value, is a noncontrolling discount applied?**

**Interpretive response:** It depends. The price paid by the acquirer to obtain the controlling interest may include a control premium, in which case the per-share fair value of the NCI would be less than the per-share fair value of the acquirer's interest. For further discussion of control premiums, see section 19 of the [BC Handbook](#). [805-20-30-8]

Quoted market prices, if available, generally provide the best evidence of fair value for NCI. Topic 820 (fair value measurement) prohibits adjustments, such as a noncontrolling discount, to quoted market prices when determining fair value. However, we believe no adjustments would be necessary, because quoted market prices reflect NCI transactions. [820-10-35-36B, 35-41C]

In the absence of quoted market prices, a noncontrolling discount may be applied when using a valuation approach that incorporates Level 2 or Level 3 inputs to estimate the fair value of an NCI.

## 3.5 Contingent consideration

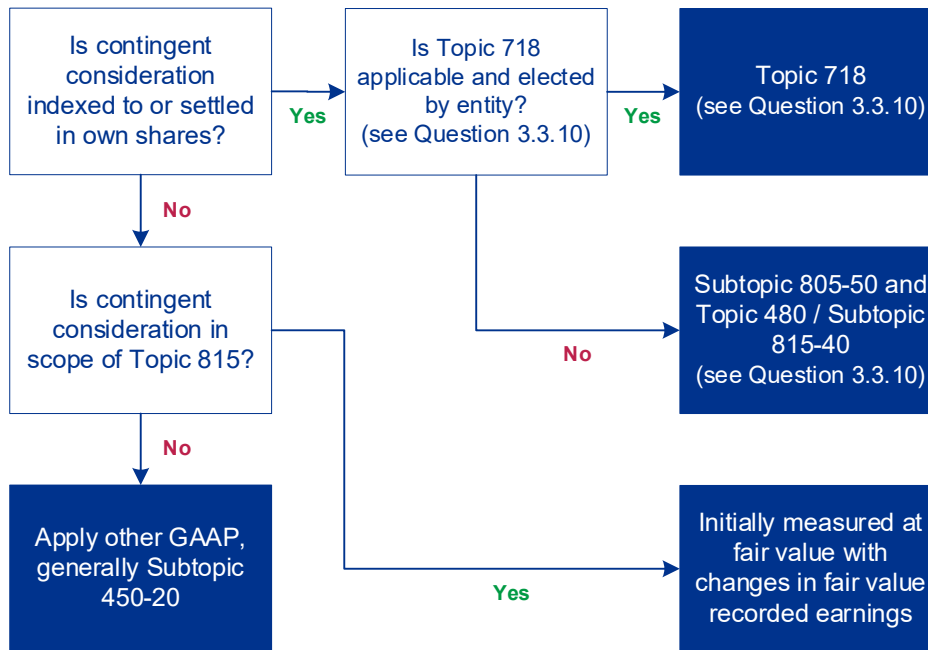
Subtopic 805-50 does not provide guidance on accounting for contingent consideration in an asset acquisition. The EITF considered providing guidance in Issue 09-2, Research and Development Assets Acquired and Contingent Consideration Issued in an Asset Acquisition, but did not reach a consensus.



### Question 3.5.10

**How does an entity account for contingent consideration?**

**Interpretive response:** The accounting for contingent consideration in an asset acquisition depends on its form as well as whether it is in the scope of specific GAAP. The following decision tree and subsequent discussion illustrate the ordering of the guidance and key considerations.



### Indexed to or settled in acquirer’s equity

Contingent consideration indexed to or settled in the acquiring entity’s equity shares is accounted for according to the guidance described in [Question 3.3.10](#).

### Settled in cash

Contingent consideration settled in cash is first evaluated to determine if it is in the scope of Topic 815.

- **In Topic 815.** The initial fair value of the derivative is included in the cost of the acquisition and subsequent changes in fair value are recorded in earnings. See chapter 2 of KPMG Handbook, [Derivatives and hedging](#), for guidance on evaluating whether an arrangement is in the scope of Topic 815. [815-10-15]
- **Not in Topic 815.** The contingent consideration is generally recorded and included in the cost of the acquisition when it is both probable and reasonably estimable under Topic 450 (contingencies). However, some entities continue to apply the superseded guidance from Statement No. 141 and only record the contingent consideration when the contingency is resolved. In our experience, contingent consideration not in the scope of Topic 815 that is in the form of a sales- or usage-based royalty where each sale or use requires an additional payment, is generally recognized as a period cost when incurred. [450-20-25, FAS 141.27]

See [Question 4.6.30](#) when the acquisition involves both a bargain purchase and contingent consideration.

### Other considerations

If the seller retains a noncontrolling interest in a legal entity holding the assets, the acquirer may need to account for contingent consideration as a preferred

return to the seller. This requires evaluating whether the contingent consideration is embedded in the NCI shares and whether it should be classified as debt or equity. That evaluation is beyond the scope of this publication. See chapter 6 of KPMG Handbook, [Debt and equity financing](#).

If the acquirer's obligation is unconditional or is based on a non-substantive contingency, the consideration is not contingent and the acquirer recognizes a liability at the acquisition date.

[Section 4.8](#) discusses the changes to the accounting for contingent consideration after the acquisition date.



### Example 3.5.10

#### Contingent consideration in an asset acquisition

Acquirer purchases a real estate property (land and an unoccupied building) from Seller in exchange for cash. In addition, Acquirer agrees to pay Seller cash equal to the appreciation (if any) of the value of the property over a predetermined benchmark value three years after the acquisition.

#### Characterizing contingent consideration

To determine the appropriate characterization and recognition for the cash-settled contingent consideration, Acquirer first determines whether the contingent consideration is in the scope of Topic 815. If it is in scope, it is initially measured at fair value (i.e. included in the cost of the real estate property) and marked to market at each reporting date.

While the arrangement may meet the definition of a derivative, an instrument qualifies for the scope exception from derivative accounting in subparagraph 815-10-15-59(b) when (1) the financial instrument is not exchange traded, (2) the underlying is a unique, nonfinancial asset, and (3) the nonfinancial asset related to the underlying is owned by the party that would not benefit under the contract from an increase in the fair value of the nonfinancial asset.

In this example, Acquirer concludes the contingent consideration agreement is not exchange traded, and the underlying asset (the property) is a uniquely identifiable real estate. In addition, Acquirer does not benefit under the settlement terms of the contingent consideration arrangement from an increase in the fair value of the property. This is because the contract requires Acquirer to potentially pay additional amounts to Seller if the fair value of the property increases.

#### Characterizing the transaction

The acquisition is not a business combination because the assets acquired do not meet the definition of a business. Therefore, accounting for contingent consideration under the guidance for a business combination is not appropriate.

#### Accounting for the contingent consideration

Acquirer recognizes a liability in its financial statements for the contingent consideration only when it is both probable and reasonably estimable under Topic 450.

In this example, because of the uncertainty related to the future market value of the property, Acquirer does not initially recognize the contingent consideration but instead discloses the contingency in its consolidated financial statements.

See [Question 4.8.10](#) and [Example 4.8.10](#) regarding the accounting for the additional cost when contingent consideration is recognized after the acquisition date.

## 3.6 Transactions not part of an asset acquisition

The acquirer and seller may enter into other transactions at or near the same time with the asset acquisition. For example, the acquirer may obtain a license to a drug compound and engage the seller to perform follow-on R&D services.

In this case, the acquirer allocates the consideration paid between the assets acquired and the services to be received (usually based on relative fair values) and recognizes the services over the relevant service period. For example, payments to the seller for R&D activities should be expensed under Topic 730 (R&D). See section 2.3 of KPMG Handbook, [Research and development](#). [730-10-25-1, 25-2(d)]



### Question 3.6.10

**How does the acquirer determine which elements of a transaction are accounted for as part of an asset acquisition versus separately?**

**Interpretive response:** Subtopic 805-50 does not provide guidance on distinguishing elements of an asset acquisition from elements of a service transaction. The EITF considered providing guidance in Issue 09-2 but did not reach a consensus.

To determine which elements of a transaction should be accounted for as part of the asset acquisition and which should be accounted for as a separate transaction, we believe acquirers may analogize to the relevant guidance on determining what is part of a business combination. See sections 2 and 11 of the [BC Handbook](#). [805-10-55-18]



### Question 3.6.20

**How does the acquirer account for the settlement of a preexisting relationship with the seller?**

**Background:** An asset acquisition may effectively settle a preexisting relationship between the acquirer and seller. For example, a tenant might purchase the building it occupies from the owner, effectively settling its preexisting lease.

**Interpretive response:** In the absence of specific guidance, we believe it is appropriate for an acquirer to analogize to the guidance on business combinations. That guidance requires the acquirer to measure the settlement at the lesser of: [\[805-10-55-21\]](#)

- the amount by which the contract is favorable or unfavorable to the acquirer on the acquisition date, and
- the amount of a contractual termination payment that would be required of the party to whom the contract is unfavorable.

This amount affects the gain or loss recognized when assets or liabilities under the preexisting relationship are derecognized. See section 11 of the [BC Handbook](#).

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# 4. Allocating the cost of an asset acquisition

## Detailed contents

### Item significantly updated in this edition: #

#### 4.1 Overview

##### Questions

- 4.1.10 Is obtaining a valuation of acquired assets and liabilities required in an asset acquisition?
- 4.1.20 Does the concept of a measurement period exist for asset acquisitions?

#### 4.2 Intangible assets acquired in an asset acquisition #

##### Questions

- 4.2.10 How does the process of identifying intangible assets in an asset acquisition differ from a business combination?
- 4.2.20 Is IPR&D recognized in an asset acquisition? #
- 4.2.30 Is an acquired workforce recognized in an asset acquisition?
- 4.2.40 Does an entity recognize defensive intangible assets in an asset acquisition?
- 4.2.50 How does an acquirer measure a reacquired right in an asset acquisition?
- 4.2.60 How does an insurance company account for acquired insurance and reinsurance contracts in an asset acquisition?

##### Example

- 4.2.10 IPR&D assets acquired

#### 4.3 Leases #

##### Questions

- 4.3.10 Does the acquirer reassess lease classification in an asset acquisition? #
- 4.3.20 How does an acquirer account for its interest in an acquired lease in an asset acquisition? #

**4.4 Acquired liabilities****Question**

- 4.4.10 Are unamortized debt issuance costs of assumed debt recognized in an asset acquisition?

**4.5 Acquired contingencies****Questions**

- 4.5.10 How does an acquirer account for its right to receive an indemnity granted by the seller in an asset acquisition?
- 4.5.20 Is a right to receive a plaintiff's future cash flows from litigation a gain contingency?

**Example**

- 4.5.10 Indemnity granted for acquired contingency

**4.6 Goodwill and bargain purchase amounts**

- 4.6.10 Overview
- 4.6.20 Contingent consideration when there is a bargain purchase amount

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**Examples**

- 4.6.05 Favorable and unfavorable contracts are acquired in exchange for no consideration
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**Example**

- 4.7.10 Asset acquisition where cost exceeds fair value, including deferred taxes

## 4.8 Subsequent accounting

### Questions

- 4.8.10 When a liability for contingent consideration is recognized/adjusted after the acquisition date, how does the acquirer recognize the additional cost?
- 4.8.20 Is additional cost allocated to acquired IP capitalized if the IP was considered IPR&D at the acquisition date?
- 4.8.30 Does the acquirer catch up depreciation when recognizing additional cost basis from contingent consideration after the acquisition date?

### Example

- 4.8.10 Allocating contingent consideration when the contingency is resolved





## Excerpt from ASC 805-50

### > Allocating Cost

**30-3** Acquiring assets in groups requires not only ascertaining the cost of the asset (or net asset) group but also allocating that cost to the individual assets (or individual assets and liabilities) that make up the group. The cost of such a group is determined using the concepts described in the preceding two paragraphs. The cost of a group of assets acquired in an asset acquisition shall be allocated to the individual assets acquired or liabilities assumed based on their relative fair values and shall not give rise to goodwill. The allocated cost of an asset that the entity does not intend to use or intends to use in a way that is not its highest and best use, such as a brand name, shall be determined based on its relative fair value. See paragraph 805-50-55-1 for an illustration of the relative fair value method to assets acquired outside a business combination.

**30-4** See paragraphs 740-10-25-49 through 25-55 for guidance on the accounting for acquired temporary differences in certain purchase transactions that are not accounted for as business combinations.

## 4.1 Overview

An acquiring entity allocates the cost of an asset acquisition to the assets acquired generally based on their relative fair values. Fair value is determined under Topic 820.

Goodwill is not recognized in an asset acquisition. It is recognized only in a business combination because, for example, it represents the synergies expected to be attained through the combinations of businesses or the value of an assembled workforce. Additionally, when the net fair value of the assets acquired and liabilities assumed is greater than the cost, a bargain purchase gain is not recognized in an asset acquisition. [805-50-30-3]



### Question 4.1.10

**Is obtaining a valuation of acquired assets and liabilities required in an asset acquisition?**

**Interpretive response:** Although the acquired assets and liabilities in an asset acquisition are not recorded at fair value, the accumulated cost of the acquisition is allocated to the acquired assets and liabilities based on their relative fair values. To make the appropriate allocation, an entity likely will need to obtain valuations of assets and liabilities whose fair values rely on valuation methodologies requiring significant estimation. Intangible assets typically fall in this category, but other assets and liabilities may as well.

For example, if a single asset is acquired, valuing the asset is not required to allocate the cost. However, if a bundle of assets that includes intangible assets

is acquired, obtaining the fair value of the assets is required to appropriately allocate the cost to the acquired assets. Generally, given the difficulty and subjectivity associated with valuing intangible assets, obtaining a valuation of the assets may be necessary.

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### Question 4.1.20

#### Does the concept of a measurement period exist for asset acquisitions?

**Interpretive response:** No. Although in a business combination, the acquirer may record provisional amounts for the assets acquired and liabilities assumed and adjust them during the measurement period, no such concept exists in an asset acquisition; this is regardless of the size or complexity of the asset acquisition.

All accounting for the asset acquisition must be completed by the next reporting date after the consummation of the transaction. This may present operational challenges for a transaction that occurs late in a fiscal period, if the transaction is clearly an asset acquisition or if there is uncertainty about whether the transaction represents an asset acquisition or a business combination.

Entities are required to follow a two-step model to determine whether a set of assets and activities is a business. The first step of the model, the screening test, requires entities to evaluate whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or a group of similar assets. [805-10-55-3A – 55-9]

- If so, the set is not a business.
- If not, under the second step of the model, the set is a business if it includes at least one input and at least one substantive process.

An entity may be able to quickly conclude that an acquired set is a business, for example, because it is clear that the value of the gross assets acquired is spread across several asset classes and the set includes both inputs and substantive processes. In those circumstances, an entity is permitted to record provisional amounts and adjust them during the measurement period.

However, in some cases, it may not be immediately clear whether the acquired set is a business. For example, there may be a significant concentration of value in a single asset or a group of similar assets, such that an entity would need to perform a detailed evaluation to determine whether the screening test is met. In those circumstances, for transactions occurring close to the end of a fiscal period, an entity may need to act quickly to obtain relevant fair value information to perform the test.

An incorrect assessment about whether a transaction is an asset acquisition or a business combination would result in errors in the financial statements.

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## 4.2 Intangible assets acquired in an asset acquisition#

An entity recognizes intangible assets acquired in an asset acquisition and in a business combination regardless of whether the selling entity recognized the intangible assets before the sale transaction. For example, an acquirer recognizes acquired market-ready technology as an intangible asset.

The fair value of intangible assets acquired individually or with a group of assets is determined under Topic 820, just as the fair values of the tangible assets acquired and the liabilities assumed are determined. Topic 820 requires fair value to be based on the assumptions that market participants would use in pricing the asset, even if the entity does not intend to use the asset, or intends to use it in a way that is not its highest and best use. For guidance on estimating the fair value of intangible assets, see section 17 of the [BC Handbook](#). [820-10-35-9] Once fair value has been determined for each of the individual assets, the cost of the group of assets (including transaction costs) is allocated to the individual assets based on their relative fair values. [805-50-30-3] However, if the ownership of, or a license to, internal-use software is acquired, we believe Subtopic 350-40 requires entities to allocate the consideration paid on a relative 'stand-alone price' basis. The stand-alone price of an element is the price at which a customer would purchase that component separately. [350-40 Glossary, 350-40-30-4]

The fact that no goodwill (or bargain purchase gain) can be recognized in an asset acquisition emphasizes the importance of a rigorous process to identify and fully value all assets and liabilities included in the group of assets acquired.



### Question 4.2.10

**How does the process of identifying intangible assets in an asset acquisition differ from a business combination?**

**Interpretive response:** For an intangible asset to be recognized in a *business combination*, it needs to meet one of two criteria in the definition of 'identifiable': [805-20 Glossary]

- it is separable – e.g. capable of being separated from the entity and sold or otherwise disposed of; or
- it arises from contractual or other legal rights – regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

These criteria may be useful in distinguishing between the types of recognized intangible assets acquired in transactions other than business combinations. However, intangible assets acquired in an *asset acquisition* are recognized if they meet the asset recognition criteria in FASB Concepts Statement (CON) No. 5 (recognition and measurement), even if they do not meet either the contractual-legal criterion or the separability criterion. [350-30-25-4]

This lower threshold may result in more intangible assets recognized in an asset acquisition than in a similar transaction that qualifies as a business combination.

The conceptual basis for applying the legal and separability criteria in Topic 805 only in a business combination is that because goodwill arises only in a business combination, criteria are needed to distinguish between identifiable intangible assets that are otherwise acquired and goodwill that is acquired in a business combination. However, where intangible assets are acquired individually or as part of a group of assets not constituting a business, the FASB believes the asset recognition criteria in CON 5 and the arm's-length, bargained nature of the exchange with a market participant provides sufficiently reliable evidence of existence and fair value to support recognition. For this reason, it did not create special identification and recognition criteria for such transactions. [350-30-25-4]

We believe intangible assets that may be recognized in an asset acquisition but would not be recognized in a business combination could include: [350-30-25-4]

- noncontractual employee base (i.e. an assembled workforce);
- noncontractual customer base; and
- a unique manufacturing process.

When performing the screening test to determine whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or a group of similar assets and therefore is not a business, an entity should follow the business combinations guidance to identify and measure the intangible assets in the acquired set, rather than the asset acquisitions guidance.



#### Question 4.2.20#

#### Is IPR&D recognized in an asset acquisition?

**Interpretive response:** Yes. However, Topic 730 (R&D) requires immediate expensing of amounts assigned to IPR&D assets acquired in a transaction (other than a business combination) that are to be used in a particular research and development project and that have no alternative future use. Therefore, in an asset acquisition, amounts allocated to IPR&D that has no alternative use are expensed. See section 2.3 of KPMG Handbook, [Research and development](#), for guidance related to accounting for purchased IPR&D. [350-30-35-6, 35-7]



#### Example 4.2.10

#### IPR&D assets acquired

Pharma acquires a Phase 2 drug candidate, a computer, software and a database used in the research and development of the drug candidate. Pharma accounts for the transaction as an asset acquisition.

Pharma evaluates whether each asset used in the project has an alternative future use. Pharma concludes that both the computer and the software can be used in future research and development projects and capitalizes the cost allocated to them as computer equipment and internal-use software, respectively. Pharma concludes that the Phase 2 drug candidate does not have

an alternative future use and expenses the cost allocated to it immediately. Additionally, Pharma concludes that the database is specific to this research and development project and therefore does not have an alternative future use. The cost allocated to it is also expensed immediately.

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#### Question 4.2.30

#### Is an acquired workforce recognized in an asset acquisition?

**Interpretive response:** Yes. Although Topic 805 states that an assembled workforce is not an intangible asset to be recognized apart from goodwill when acquired in a business combination, Subtopic 350-30 (intangible assets) indicates that when an assembled workforce is acquired in other than a business combination, it is an intangible asset to be recognized. [350-30-25-4]

However, the existence of an assembled workforce may be an indicator of a substantive process when considering whether the acquisition is a business combination or an asset acquisition. See section 2 of the [BC Handbook](#).

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#### Question 4.2.40

#### Does an entity recognize defensive intangible assets in an asset acquisition?

**Interpretive response:** Yes. Subtopic 805-50 addresses assets that the acquirer intends not to use or to use in a way other than their highest and best use (e.g. a brand name). [805-50-30-3, 350-30-25-5]

That Subtopic requires these assets to be recognized in an asset acquisition on the basis of their relative fair values. An entity measures fair value under Topic 820, based on the asset's highest and best use by market participants.

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#### Question 4.2.50

#### How does an acquirer measure a reacquired right in an asset acquisition?

**Background:** As an example to explain the concept of a reacquired right, Acquirer previously granted Start-Up a license to a drug compound. Start-Up began related R&D activities but had to discontinue those activities and lay off most of its employees because it ran out of funding. Acquirer buys all shares of Start-Up, thereby reacquiring rights to the license. The transaction is an asset acquisition because Start-Up is no longer a business.

**Interpretive response:** In the absence of specific guidance, we believe an acquirer has an accounting policy election to allocate cost to a reacquired right based on either: [805-20-30-20]

- its fair value under Topic 820 (fair value measurement); or
- its remaining contractual term, regardless of assumptions market participants would make about renewals, by analogy to the guidance on business combinations. See section 7 of the [BC Handbook](#).



### Question 4.2.60

#### How does an insurance company account for acquired insurance and reinsurance contracts in an asset acquisition?

**Interpretive response:** There is no specific guidance on the acquisition of insurance and reinsurance contracts in an asset acquisition. However, Subtopic 944-805 provides guidance on how to recognize and measure these contracts in a business combination (see paragraphs 7.020 to 7.022 in the [BC Handbook](#)).

In the absence of other guidance, we believe analogy to Subtopic 944-805 is appropriate. This guidance requires an acquirer to carry forward the acquiree's classification of an acquired insurance or reinsurance contract.

The acquirer measures assets and liabilities for the insurance and reinsurance contracts in accordance with its own accounting policies for such contracts. Accordingly, the acquirer recognizes an intangible asset (or occasionally a liability) for the difference between the fair value of the contracts acquired and the respective amount the acquirer recognized using its accounting policies. Subsequently, the asset (or other liability) is measured on a basis consistent with the related insurance or reinsurance liability. [944-805-30-1, 35-1]

[Example 4.6.07](#) illustrates the accounting for these contracts in an asset acquisition.

## 4.3 Leases#

An acquirer may obtain an interest in a lease in an asset acquisition. For example, an acquirer may purchase a tenant-occupied real estate property and assume the role of the lessor. Alternatively, the acquirer may assume the role of a lessee, for example if it acquires a legal entity that is not a business that has leased office space.

Subtopic 805-50 contains no specific guidance on the accounting for lease contracts in an asset acquisition.

For detailed guidance on accounting for lease contracts, see KPMG Handbook, [Leases](#). [842-10-65-1]



### Question 4.3.10#

#### Does the acquirer reassess lease classification in an asset acquisition?

**Interpretive response:** It depends. This is because under Topic 842, the classification of a lease is reassessed only in specific circumstances when there is a: [842-10-25-1]

- lease modification not accounted for as a separate contract;
- change in the lease term (*lessees only*); or
- change in the assessment of whether a lessee is reasonably certain to exercise a purchase option (*lessees only*).
- Absent one of these, lease classification is not reassessed. Therefore, acquisition of the lease alone would not result in reassessing lease classification. One of the above items would have to occur in connection with the asset acquisition, such as if:
  - the lease were modified in connection with the acquisition; or
  - the acquirer was the lessee in the acquired lease, and the acquirer, in measuring the lease liability and ROU asset in accordance with paragraph 805-20-30-24, reaches a different assessment of the lease term than that of the acquirer immediately before the acquisition date.

The definition of 'lease modification' should be considered when deciding whether a lease is modified in connection with an acquisition. Topic 842 defines a lease modification as "a change in the terms and conditions that results in a change in the scope of or the consideration for a lease." Therefore, if the only change to the lease agreement involves replacing the name of one of the parties to the lease with the name of the acquirer, no lease modification has occurred.



### Question 4.3.20#

#### How does an acquirer account for its interest in an acquired lease in an asset acquisition?

**Interpretive response:** If the acquirer assumes the role of lessee, it will recognize a right-of-use asset and a lease liability. See [Question 4.3.10](#) for a discussion of the circumstances in which the acquirer should reassess lease classification in an asset acquisition. If the acquirer assumes the role of lessor, the accounting depends on whether the lease is classified as an operating lease or a sales-type or direct financing lease. In either case, the acquirer also recognizes related intangible assets. For detailed guidance on accounting for leases in an asset acquisition, see Question 11.1.70 in KPMG Handbook, [Leases](#).

## 4.4 Acquired liabilities

Liabilities assumed in an asset acquisition are generally measured at fair value under Topic 820 at the acquisition date. See [Question 4.6.10](#) on allocating costs.



### Question 4.4.10

**Are unamortized debt issuance costs of assumed debt recognized in an asset acquisition?**

**Interpretive response:** No. The seller's unamortized debt issuance costs are not recognized with debt assumed in the asset acquisition because these costs do not meet the definition of an asset. Further, the unamortized debt issuance costs are not factored into the fair value measurement of the debt at the acquisition date.

See [Question 3.2.20](#) for a discussion on accounting for costs incurred in issuing new debt to fund an asset acquisition.

## 4.5 Acquired contingencies

If the acquirer acquires or assumes a contingency in an asset acquisition, it accounts for the contingency under Topic 450 (contingencies). Loss contingencies are recorded when they are probable and can be reasonably estimated. In contrast, gain contingencies are not recognized until the contingency is resolved. [450-20-25-2, 450-30-25-1]

If there is a significant contingent liability associated with the acquired assets, the seller may agree to indemnify the acquirer for losses associated with that liability. Subtopic 805-50 does not provide guidance on accounting for indemnification arrangements.



### Question 4.5.10

**How does an acquirer account for its right to receive an indemnity granted by the seller in an asset acquisition?**

**Interpretive response:** In the absence of specific guidance, we believe it is appropriate for an acquirer to analogize to the guidance in Topic 805 on indemnification assets.

Under that guidance, if the indemnification relates to an asset or liability that is an exception to Topic 805's recognition or fair value measurement principles, the acquirer recognizes an indemnification asset on the same basis as the indemnified item, subject to any contractual limitations and collectibility. See section 7 of the [BC Handbook](#). [805-20-25-28]



An acquirer may not recognize an indemnification asset at an amount that exceeds the indemnified liability. If the acquirer is entitled to receive an amount in excess of the loss, it should account for that excess as a gain contingency. [\[450-30-25-1\]](#)



### Example 4.5.10

#### Indemnity granted for acquired contingency

Parent acquires all of the shares in Subsidiary, whose assets consist of a real estate property (land and an unoccupied building). Parent determines that the acquisition qualifies as an asset acquisition and not a business combination.

There is ongoing litigation against Subsidiary by some of its former employees for asbestos claims related to the property. The seller agrees to indemnify Parent for asbestos-related claims against Subsidiary up to an aggregate of \$3.5 million.

After consulting with legal counsel, Parent concludes that it should recognize a \$2.1 million liability under Subtopic 450-20 (loss contingencies) for asserted and unasserted asbestos claims. Parent also recognizes an indemnification asset of \$2.1 million, the lesser of the accrual recognized for the indemnified item (\$2.1 million) and the contractual limitation (\$3.5 million).



### Question 4.5.20

#### Is a right to receive a plaintiff's future cash flows from litigation a gain contingency?

**Background:** As an example, the acquirer might be a financial services company, providing customers with immediate liquidity (similar to factoring receivables) or helping them mitigate cash flow variability if the settlement amount is not yet fixed. An acquirer might also obtain control of a legal entity that is a plaintiff in litigation.

**Interpretive response:** Not necessarily. An acquirer's right to a plaintiff's future cash flows from litigation is a financial asset if there is an enforceable judgment and the cash flows are contractually fixed, and the acquirer obtains either: [\[860-10-55-10 – 55-11\]](#)

- control of the legal entity that is the plaintiff; or
- a contractual right to receive the plaintiff's cash flows, and the acquirer and plaintiff are unrelated third parties.

If a contract to receive a third-party plaintiff's future cash flows from litigation is not a financial instrument, it might still be a derivative. See KPMG Handbook, [Derivatives and hedging](#) (post-ASU 2017-12), for guidance on evaluating whether a contract meets the definition of a derivative. [\[815-10-15\]](#)

Otherwise, an acquirer accounts for a right to receive a plaintiff's future cash flows from litigation as a gain contingency. [\[450-30-25-1\]](#)

## 4.6 Goodwill and bargain purchase amounts

### 4.6.10 Overview

The cost of the acquired assets and liabilities assumed may differ from their combined fair value.

- When the cost is greater than fair value of the assets acquired and liabilities assumed, Subtopic 805-50 specifically prohibits recognizing goodwill.
- When the fair value of the net assets is greater than the cost, a bargain purchase gain is not recorded. Although there is no specific guidance for bargain purchases, Subtopic 805-50 prohibits recognition of gains or losses on asset acquisitions unless the fair value of noncash consideration transferred exceeds its carrying amount. [805-50-30-1]

If the cost significantly exceeds the fair value of the assets acquired and liabilities assumed, that may indicate the presence of another arrangement between the acquirer and the seller that needs to be separately accounted for (e.g. a service arrangement). See [section 3.6](#).

Alternatively, if there is more than an insignificant amount of goodwill present, that may indicate that the acquirer obtained a substantive process and therefore the acquired set of assets and activities may be a business. See section 2 of the [BC Handbook](#). [805-10-55-9]



#### Question 4.6.10

#### How is an excess or shortfall of cost allocated in an asset acquisition?

**Interpretive response:** A difference between the cost and the fair value of a group of assets acquired and liabilities assumed generally should be allocated to assets only, not to both assets and liabilities. The conceptual basis for this view is that the liabilities assumed are viewed as part of the cost of the assets acquired.

#### Excess cost

When the cost of the group of assets is greater than the fair value of the group, goodwill is not recorded. The acquirer should first confirm that all assets have been identified and allocated value. As opposed to the recognition criteria applied in a business combination (e.g. the contractual-legal or separability criteria for intangible assets), assets acquired in an asset acquisition only need to meet the asset recognition criteria in CON 5, which is a lower recognition threshold. For example, an assembled workforce, which is subsumed into goodwill in a business combination is recognized as an asset in an asset acquisition (see [section 4.2](#)). [350-30-25-4]

Once all assets have been recognized, the excess cost is allocated to the nonfinancial assets acquired. This allocation causes each acquired asset to be recognized at an amount greater than its individual fair value.

We do not believe that excess cost should be allocated to financial assets or indefinite-lived intangible assets because that could result in an immediate recognition of an impairment loss related to those assets. This would be inconsistent with the general principle that there should be no immediate gain or loss recognized as part of the asset acquisition.

Therefore, consistent with the view expressed in the superseded cost allocation guidance in FASB Statement No. 141, we do not expect adjustments to be allocated to the initially measured amounts of: [FAS 141.44]

- financial assets (excluding investments in equity method investees);
- assets acquired that are classified as held-for-sale; based on the guidance in paragraph 360-10-45-12, an asset that is acquired and that will be sold (rather than held and used) is held for sale if the sale is probable and expected to be completed within one year of the acquisition date, and all other held-for-sale criteria are probable of being met within a short period following the acquisition (usually within three months);
- deferred tax assets;
- postretirement benefit plan assets; and
- other current assets (including inventory).

In addition, we also do not expect adjustments to be allocated to:

- indefinite-lived intangible assets;
- contract assets recorded under Topic 606; and
- indemnification assets.

Although indefinite-lived intangibles should not be allocated an amount greater than their fair value because this would result in an immediate impairment charge under Topic 350, long-lived assets (such as property, plant and equipment and finite-lived intangibles) should be allocated excess cost and recorded above their fair value because those assets are measured for impairment under Topic 360. Under the Topic 360 model, whereby those long-lived assets are first tested for recoverability together with their associated asset groups through comparison to undiscounted cash flows, it is unlikely that a recently acquired asset group would fail the recoverability test or that an immediate impairment would be recorded.

### **Bargain purchase amount**

Similar to situations in which there is excess purchase cost, when the fair value of the net assets acquired exceeds purchase consideration, a bargain purchase gain is not recorded. The acquiring entity should first confirm that the fair values of acquired assets have been appropriately determined and all assumed liabilities have been identified and allocated value.

We believe an acquirer should generally allocate a bargain purchase amount in the same manner as excess cost except that the bargain purchase should also be allocated to indefinite-lived intangible assets. The exception for indefinite-lived intangible assets is appropriate because it would not result in an immediate recognition of an impairment loss.

If a bargain purchase remains after allocating the bargain purchase amount to eligible assets (including indefinite-lived intangible assets), we believe an entity should allocate the bargain amounts to the remaining assets to avoid recognizing a bargain gain. If other relevant GAAP subsequently requires the

asset(s) to be measured at fair value – in which case there would be a gain recognized in that reporting period – the subsequent measurement and resulting gain should generally be recorded in accordance with that GAAP.



### Example 4.6.05

#### Favorable and unfavorable contracts acquired in exchange for no consideration

Oil Co enters into an asset acquisition in which it acquires two contracts for capacity on a transmission pipeline from Seller. One contract is considered unfavorable and one is considered favorable. Oil Co. does not transfer any consideration to Seller.

The unfavorable contract includes \$10 million of remaining take-or-pay payments. Neither Oil Co, nor any other company, would use the capacity related to the unfavorable contract because no oil and gas reserves remained in the area of the pipeline.

Oil Co determines the cost of acquisition to be the fair value of the liability assumed – which is the \$10 million unfavorable contract. In this example, the effects of discounting are assumed to be insignificant.

The \$10 million liability is recognized at the date of acquisition. Oil Co then allocates the \$10 million of cost to the favorable contract intangible asset.



### Example 4.6.07

#### Asset acquisition of a shell insurance company

ABC Insurance Company (ABC) purchases XYZ Insurance Company (XYZ) for \$70 in an asset acquisition, and incurs transaction costs of \$10.

Immediately before the acquisition, XYZ entered into an agreement with its parent to reinsure its insurance contracts under a 100% coinsurance agreement. XYZ is a shell insurance company because it does not retain any insurance risk and was acquired primarily for its insurance licenses.

The fair value of the assets and liabilities acquired are as follows.

	Fair value
Investments	\$50
Insurance licenses	15
Insurance contracts – claim liabilities	(160)
Reinsurance contracts – reinsurance recoverable	165
<b>Total</b>	<b>\$70</b>

ABC accounts for the acquisition of insurance and reinsurance contracts in accordance with [Question 4.2.60](#) and measures the insurance and reinsurance contracts consistent with the guidance in Subtopic 944-805. Therefore, ABC

## 4. Allocating the cost of an asset acquisition

measures the insurance and reinsurance contracts consistent with its own accounting policies and recognizes an intangible asset (or liability) for the difference between those amounts and the fair value of those contracts.

Therefore, the net assets to be recorded (before considering transaction costs) are as follows.

	Amount recorded
Investments	\$50
Insurance licenses	15
Insurance contracts – claim liabilities	(175)
Reinsurance contracts – reinsurance recoverable	175
Insurance contract intangible asset, net – insurance contracts <sup>1</sup>	15
Other liability – ceded reinsurance contracts <sup>2</sup>	(10)
<b>Total</b>	<b>\$70</b>
Notes:	
1. \$175 - \$160.	
2. \$175 - \$165.	

The total cost of the transaction is \$80 (\$70 of cash transferred plus \$10 of transaction costs). The \$80 cost is greater than the \$70 fair value.

Because goodwill is not recorded in an asset acquisition, ABC would allocate the excess cost to eligible assets. However, ABC concludes that none of the assets acquired are eligible for excess allocation (see [Question 4.6.10](#)).

- The investments are financial assets and therefore not eligible.
- The insurance licenses are indefinite-lived intangible assets and therefore not eligible.
- The reinsurance recoverable is a financial asset and therefore not eligible.
- The claim liabilities and other liability – ceded reinsurance contracts are not eligible because excess allocation is generally only allocated to assets, and not to both assets and liabilities.
- The insurance contract intangible asset is created due to the difference between the fair value and estimated amount of the claim liabilities that is not eligible for excess allocation. Because excess costs cannot be allocated to the claim liabilities, this balance similarly would not change (or would be ineligible).

Because all of the assets are ineligible, ABC records an expense for the excess amount. ABC records the following journal entry.

	<i>Debit</i>	<i>Credit</i>
Expense	10	
Investments	50	
Insurance license intangible assets	15	
Reinsurance recoverables – ceded claim liabilities	175	
Insurance contract intangible asset – insurance contracts	15	
Claim liabilities		175
Other liability – ceded reinsurance contracts		10
Cash		80
<i>To record asset acquisition of XYZ Insurance Company.</i>		



### Question 4.6.20

**How does the accounting acquirer account for excess cost in a reverse asset acquisition?**

**Interpretive response:** The approach outlined in [Question 4.6.10](#) also applies to reverse asset acquisitions.

In reverse asset acquisitions, there may be instances in which cost, which includes the fair value of the hypothetical consideration transferred (see [Question 3.3.20](#)), exceeds the fair value of the net assets acquired (mainly attributed to cash or other financial assets).

Additionally, there may be few or no nonfinancial assets held by the legal parent (accounting acquiree). In that case, the difference between the cost and the fair value of the net assets acquired should be evaluated to determine whether there were other elements that should be accounted for separately. For example, a portion of the cost might be considered employee compensation or a cost to issue equity.

## 4.6.20 Contingent consideration when there is a bargain purchase amount

A bargain purchase amount could arise if the transaction includes only a small fixed payment and a potentially significant amount of contingent consideration that is not recognized at the acquisition date. In that circumstance, a question arises about how to measure the bargain purchase amount.



### Question 4.6.30

#### How does the acquirer measure a bargain purchase amount when contingent consideration is also included?

**Interpretive response:** Subtopic 850-50 does not specifically address this fact pattern. We believe an acquirer has an accounting policy election to measure a bargain purchase amount either (1) by analogizing to the guidance in Topic 323 or (2) following other US GAAP, as described in [section 3.5](#).

We believe this is an accounting policy election that an entity should apply consistently. If an entity has a previous accounting policy, it needs to follow Topic 250 (accounting changes and error corrections) to change its policy, including demonstrating that the change is preferable. [\[250-10-45-2\]](#)

#### Analogy to Topic 323

We believe it may be acceptable to analogize to the Topic 323 guidance on recognizing contingent consideration in the acquisition of an equity method investment. However, this analogy is not appropriate if the contingent consideration is in the scope of Topic 815, in which case the liability should be recorded at fair value.

Under this analogy, when there is a bargain purchase amount and the agreement includes contingent consideration, the acquirer recognizes a liability equal to the lesser of: [\[323-10-35-2A, 55-2B\]](#)

- the maximum amount of contingent consideration; or
- the excess of the fair value of the net assets acquired over the initial consideration paid (e.g. the bargain purchase amount).

This liability reduces the bargain purchase amount initially allocated to the assets acquired.

When the contingency is ultimately resolved, any additional contingent consideration issued or issuable over the amount that was initially recognized as a liability is considered an additional cost of the acquisition. We believe this additional amount should be allocated to the qualifying assets on a relative fair value basis (see [Question 4.8.10](#)). [\[323-10-35-14A\]](#)

#### Apply other US GAAP

Alternatively, an acquirer may elect not to analogize to Topic 323 and follow other US GAAP, as described in [section 3.5](#). Even though this approach results in a greater bargain purchase amount, we believe it is also acceptable because that amount is allocated to the assets acquired, rather than recognized as a bargain purchase gain.

**Example 4.6.10****Asset acquisition where fair value exceeds cost**

ABC Corp. acquires a group of assets in an asset acquisition for \$8,000 cash and additional consideration up to a maximum of \$1,500 contingent on the successful commercial development of technology.

To determine the appropriate characterization and recognition of the contingent consideration, ABC first determines whether the contingent consideration is in the scope of Topic 815. If it is in scope, it is initially measured at fair value (i.e. included in the cost of the asset acquisition) and marked to market at each reporting date.

While the arrangement may meet the definition of a derivative, an instrument qualifies for the scope exception from derivative accounting in subparagraph 815-10-15-59(b) when (1) the financial instrument is not exchange traded, (2) the underlying is a unique, nonfinancial asset, and (3) the nonfinancial asset related to the underlying is owned by the party that would not benefit under the contract from an increase in the fair value of the nonfinancial asset.

In this example, ABC concludes that the contingent consideration agreement is not exchange traded, and the underlying asset (the technology) is a uniquely identifiable nonfinancial asset whose value is most affected by commercial success. In addition, ABC does not benefit under the settlement terms of the contingent consideration arrangement from an increase in the fair value of the asset; this is because the contract requires ABC to pay additional amounts to the seller upon successful commercialization and ABC concludes that successful commercialization would increase the value of the underlying asset (i.e. the seller benefits because it receives the payment).

Therefore, ABC concludes that the contingent consideration is not in the scope of Topic 815. Accordingly, ABC determines that the contingent consideration is in the scope of Topic 450.

At the time of the acquisition, ABC determines that the occurrence of the future event is not probable. ABC determines that the fair value of the assets acquired is \$10,000, consistent with the highest and best use of the assets by market participants.

Deferred income taxes and transaction costs are not considered in this example.

The fair values of the assets acquired are as follows.

Inventory	\$2,500
Equipment	4,000
Tradename	1,500
IPR&D	2,000

The fair value of the acquired assets (\$10,000) is greater than the cash cost excluding contingent consideration (\$8,000). ABC does not have a policy for these types of transactions and can choose from the approaches in [Question 4.6.30](#).



**Approach 1: Analogy to Topic 323**

ABC records a liability equal to the lesser of the maximum amount of contingent consideration (\$1,500) or the bargain purchase amount excluding the contingent consideration (\$2,000). In this case, a liability is recorded for \$1,500.

ABC allocates the bargain purchase amount of \$500 (\$2,000 - \$1,500) to all of the assets acquired except inventory (see [Question 4.6.10](#)).

	Fair value	Relative fair value %	Allocation of bargain purchase	Amount to record
Equipment	\$4,000	53.3%	\$(267)	\$3,733
Tradename	1,500	20.0%	(100)	1,400
IPR&D	2,000	26.7%	(133)	1,867
<b>Totals</b>	<b>\$7,500</b>	<b>100.0%</b>	<b>\$(500)</b>	<b>\$7,000</b>

ABC records the following journal entry.

	Debit	Credit
Inventory	2,500	
Equipment	3,733	
Tradename	1,400	
IPR&D asset	1,867	
Cash		8,000
Liability to sellers		1,500
<i>To record acquisition of assets.</i>		

The \$1,867 allocated to IPR&D is expensed immediately if it has no alternative future use.

	Debit	Credit
R&D expense	1,867	
IPR&D asset		1,867
<i>To record R&amp;D expense for IPR&amp;D.</i>		

**Approach 2: Apply other US GAAP**

ABC does not initially recognize a liability for contingent consideration. ABC allocates the \$2,000 bargain purchase amount to all of the assets acquired except inventory (see [Question 4.6.10](#)).

	Fair value	Relative fair value %	Allocation of bargain purchase	Amount to record
Equipment	\$4,000	53.3%	\$(1,067)	\$2,933
Tradename	1,500	20.0%	(400)	1,100
IPR&D	2,000	26.7%	(533)	1,467
<b>Totals</b>	<b>\$7,500</b>	<b>100.0%</b>	<b>\$(2,000)</b>	<b>\$5,500</b>

ABC records the following journal entry.

	<i>Debit</i>	<i>Credit</i>
Inventory	2,500	
Equipment	2,933	
Tradenname	1,100	
IPR&D asset	1,467	
Cash		8,000
<i>To record acquisition of assets.</i>		

The \$1,467 allocated to the IPR&D is expensed immediately if it has no alternative future use.

	<i>Debit</i>	<i>Credit</i>
R&D expense	1,467	
IPR&D asset		1,467
<i>To record R&amp;D expense for IPR&amp;D.</i>		



### Example 4.6.15

#### Contingent consideration is the only consideration

ABC Corp. acquires a group of assets comprising a single IPR&D asset and inventory in an asset acquisition. The only potential consideration in the arrangement is a payment of \$250 on the successful commercial development of the IPR&D.

To determine the appropriate characterization and recognition of the contingent consideration, ABC first determines whether the contingent consideration is in the scope of Topic 815. If it is in scope, it is initially measured at fair value (i.e. included within the cost of the asset acquisition) and marked to market at each reporting date.

While the arrangement may meet the definition of a derivative, an instrument qualifies for the scope exception from derivative accounting in subparagraph 815-10-15-59(b) when (1) the financial instrument is not exchange traded, (2) the underlying is a unique, nonfinancial asset, and (3) the nonfinancial asset related to the underlying is owned by the party that would not benefit under the contract from an increase in the fair value of the nonfinancial asset.

In this this example, ABC concludes that the contingent consideration agreement is not exchange traded, and the underlying asset (the IPR&D) is a uniquely identifiable nonfinancial asset whose value is most affected by commercial success. In addition, ABC does not benefit under the settlement terms of the contingent consideration arrangement from an increase in the fair value of the asset because the contract requires ABC to pay additional amounts to the seller upon successful commercialization and ABC concludes successful

## 4. Allocating the cost of an asset acquisition

commercialization would increase the value of the underlying asset (i.e. the seller benefits because it receives the payment).

Therefore, ABC concludes that the contingent consideration is not in the scope of Topic 815. Accordingly, ABC determines that the contingent consideration is in the scope of Topic 450.

At the date of acquisition, ABC determines that a successful commercial development of the IPR&D is not probable.

The following are the fair values of the assets acquired.

	Fair value
Inventory	\$ 5
IPR&D	\$95

The fair value of the acquired assets (\$100) is greater than the cash cost excluding contingent consideration (\$0). ABC does not have a policy for these types of transactions and can choose from the approaches in [Question 4.6.30](#).

### Approach 1: Analogy to Topic 323

ABC recognizes a liability of \$100, which is the lesser of the maximum amount of the contingent consideration (\$250) or the bargain purchase amount excluding contingent consideration (\$100). ABC allocates the cost to the assets on a relative fair value basis and records the following.

	Debit	Credit
Inventory	5	
IPR&D asset	95	
Liability to Seller		100
<i>To recognize acquisition of assets.</i>		

The IPR&D asset is expensed immediately if it has no alternative future use.

	Debit	Credit
R&D expense	95	
IPR&D asset		95
<i>To recognize R&amp;D expense for IPR&amp;D.</i>		

### Approach 2: Apply other US GAAP

ABC does not initially recognize a liability for contingent consideration. ABC allocates the \$100 bargain purchase amount to the assets as follows (see [Question 4.6.10](#)).

- ABC allocates the bargain purchase amount to IPR&D to the extent of its fair value of \$95.
- ABC allocates the remaining \$5 to inventory because the measurement basis of inventory will not require ABC to immediately recognize a gain or loss.

As a result, ABC does not recognize IPR&D and inventory at the time of acquisition.



### Example 4.6.20

#### Asset acquisition where cost exceeds fair value

Parent acquires Subsidiary in a nontaxable transaction. Subsidiary owns a hotel property. Parent pays \$505,000 in cash and incurs \$80,000 of acquisition-related costs. The transaction is an asset acquisition.

As of the acquisition date, Subsidiary has the following net assets.

	Book and tax basis	Fair value
Cash	\$ 10,000	\$ 10,000
Land	50,000	80,000
Building	650,000	700,000
Other fixed assets	20,000	20,000
Accounts payable	(5,000)	(5,000)
Debt	(300,000)	(300,000)
<b>Equity</b>	<b>\$(425,000)</b>	<b>\$(505,000)</b>

Although the cost of \$585,000 (cash \$505,000 + acquisition related costs \$80,000) is greater than the fair value of the net assets acquired (\$505,000), the excess is not recorded as goodwill. Instead, the excess is allocated only to nonfinancial assets (see [Question 4.6.10](#)) on a relative fair value basis.

The excess of \$80,000 (\$585,000 - \$505,000) is allocated as follows.

	Fair value	Relative percentage	Allocated excess	Total allocated value
Land	\$ 80,000	10.0%	\$ 8,000	\$ 88,000
Building	700,000	87.5%	70,000	770,000
Other fixed assets	20,000	2.5%	2,000	22,000
<b>Total</b>	<b>\$800,000</b>	<b>100.0%</b>	<b>\$80,000</b>	<b>\$880,000</b>

See [Example 4.7.10](#) for an illustration of the recognition of deferred taxes for this asset acquisition.

## 4.7 Deferred taxes

Temporary differences acquired in an asset acquisition are accounted for under Topic 740 (income taxes). Fundamentally, the accounting for deferred taxes in an asset acquisition is the same as in a business combination. However, because neither goodwill nor a bargain purchase gain is recognized in an asset

acquisition, recognizing deferred tax assets or liabilities for temporary differences in an asset acquisition results in adjusting the carrying amount of the related assets and liabilities. [740-10-25-49 – 25-55]

There are significant nuances to accounting for deferred taxes in an asset acquisition that are not addressed in this publication. For further discussion, see section 10 of KPMG Handbook, [Accounting for income taxes](#).



### Question 4.7.10#

#### How are deferred taxes for temporary differences measured in an asset acquisition?

**Interpretive response:** If the cost differs from the tax bases of the assets acquired and liabilities assumed, the simultaneous equations method is used to calculate the deferred tax assets and liabilities and the resulting adjustments to the related assets' and liabilities' carrying amounts. [740-10-25-50 – 2-55, 55-170 – 55-201]

The following factor is applied to each initial temporary difference to calculate the amount of the deferred tax asset or liability and the corresponding adjustment to the carrying amount of the related asset or liability.

$$\text{factor} = \text{tax rate} / (1 - \text{tax rate})$$

However, if an acquirer recognizes a valuation allowance on an acquired deferred tax asset at the time of the asset acquisition, we believe the simultaneous equation should not be used to calculate the deferred tax asset and the related valuation allowance. The valuation allowance is generally recognized separately from the accounting for the purchase. For further discussion, see section 10 of KPMG Handbook, [Accounting for income taxes](#).



### Example 4.7.10

#### Asset acquisition where cost exceeds fair value, including deferred taxes

Continuing [Example 4.6.20](#), the last step to finalize the accounting for the asset acquisition is to recognize deferred taxes. Subsidiary is a C corporation for tax purposes, and the acquisition is nontaxable. The initial temporary differences are future taxable amounts of \$38,000, \$120,000 and \$2,000 for the land, building, and other fixed assets, respectively.

Assuming a tax rate of 21%, a factor of 0.265822 (21% / (1 - 21%)) is applied to the initial temporary differences, resulting in deferred tax liabilities of \$10,101, \$31,899 and \$532 for the land, building and other fixed assets respectively. These amounts are added to the initial carrying amounts of the assets to arrive at their final carrying amounts of \$98,101, \$801,899 and \$22,532 respectively.

The steps are shown in the following table.

## 4. Allocating the cost of an asset acquisition

	Tax basis	Initial carrying amount	Initial temporary difference	Factor	Deferred tax liability	Final carrying amount
Land	\$ 50,000	\$ 88,000	\$ 38,000	.265822	\$10,101	\$ 98,101
Building	650,000	770,000	120,000	.265822	31,899	801,899
Other fixed assets	20,000	22,000	2,000	.265822	532	22,532
<b>Totals</b>	<b>\$720,000</b>	<b>\$880,000</b>	<b>\$160,000</b>	<b>.265822</b>	<b>\$42,532</b>	<b>\$922,532</b>

Parent checks that these amounts have been calculated correctly by multiplying the final temporary differences by the tax rate.

	Tax basis	Final carrying amount	Final temporary difference	Tax rate	Deferred tax liability
Land	\$ 50,000	\$ 98,101	\$ 48,101	21%	\$ 10,101
Building	650,000	801,899	151,899	21%	31,899
Other fixed assets	20,000	22,532	2,532	21%	532
<b>Totals</b>	<b>\$720,000</b>	<b>\$922,532</b>	<b>\$202,532</b>	<b>21%</b>	<b>\$ 42,532</b>

## 4.8 Subsequent accounting



### Excerpt from ASC 805-50

#### > Accounting After Acquisition

**35-1** After the acquisition, the acquiring entity accounts for the asset or liability in accordance with the appropriate generally accepted accounting principles (GAAP). The basis for measuring the asset acquired or liability assumed has no effect on the subsequent accounting for the asset or liability.

The acquirer subsequently accounts for the assets and liabilities under appropriate US GAAP. The subsequent accounting is not affected by the basis for the initial measurement of the asset acquired or liability assumed.

[805-50-35-1]



### Question 4.8.10

**When a liability for contingent consideration is recognized/adjusted after the acquisition date, how does the acquirer recognize the additional cost?**

**Interpretive response:** If a contingent consideration arrangement is in the scope of Topic 815, any changes in fair value are reported currently in earnings, rather than adjusting the carrying amount of the acquired assets. [815-10-35-2]

If contingent consideration not in the scope of Topic 815 is recognized subsequent to the acquisition date (e.g. because payment of the contingent consideration becomes probable), the additional cost is allocated to the assets acquired generally following the approach described in [Question 4.6.10](#). We believe it is appropriate to use the assets' fair values as of the original acquisition date, consistent with the general principle that cost is allocated to the assets acquired based on their relative fair values at the acquisition date. [805-50-30-3]

If a liability for contingent consideration that does not meet the definition of a derivative is subsequently reduced (or an asset is recognized for refundable contingent consideration), the acquirer reduces the carrying amounts of the acquired assets, following the approach described in [Question 4.6.10](#).

In our experience, contingent consideration not in the scope of Topic 815 that is in the form of a sales- or usage-based royalty where each sale or use requires an additional payment, is generally recognized as a period cost when incurred.



### Question 4.8.20

**Is additional cost allocated to acquired IP capitalized if the IP was considered IPR&D at the acquisition date?**

**Interpretive response:** It depends. We believe it is appropriate to capitalize the additional cost allocated to acquired IP if the R&D project is complete when the additional cost is incurred and otherwise meets the definition of an asset.

In contrast, if the additional cost is incurred before the R&D project is complete, the additional cost would continue to be expensed, unless the asset has an alternative future use.

Our view is based on an SEC staff speech that addressed allocating contingent consideration to acquired technology in business combinations accounted for under a cost accumulation model. In that speech, the staff indicated that amounts allocated to acquired technology should not be expensed as IPR&D unless the related technology remains in the R&D phase when the contingent consideration is recognized. [1995 AICPA Conf]

For example, when an acquirer of a drug candidate obtains final FDA approval that triggers a milestone payment to the seller, it recognizes a liability and allocates the additional cost to the acquired assets based on the relative fair value allocation at the acquisition date as described in [Question 4.6.10](#). The

amount allocated to the acquired technology is capitalized, because it is no longer IPR&D.

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### Example 4.8.10

#### Allocating contingent consideration when the contingency is resolved

ABC Corp. acquires a group of assets in an asset acquisition for \$8,000 cash and additional consideration up to a maximum of \$4,000 contingent on successfully developing acquired technology into a marketable product.

To determine the appropriate characterization and recognition of the contingent consideration, ABC first determines whether the contingent consideration is in the scope of Topic 815. If it is in scope, it is initially measured at fair value (i.e. included within the cost of the asset acquisition) and marked to market at each reporting date.

While the arrangement may meet the definition of a derivative, an instrument qualifies for the scope exception from derivative accounting in subparagraph 815-10-15-59(b) when (1) the financial instrument is not exchange traded, (2) the underlying is a unique, nonfinancial asset, and (3) the nonfinancial asset related to the underlying is owned by the party that would not benefit under the contract from an increase in the fair value of the nonfinancial asset.

In this this example, ABC concludes that the contingent consideration agreement is not exchange traded, and the underlying asset (the technology) is a uniquely identifiable intangible asset whose value is most affected by commercial success. In addition, ABC does not benefit under the settlement terms of the contingent consideration arrangement from an increase in the fair value of the asset because the contract requires ABC to pay additional amounts to the seller upon successful commercialization and ABC concludes successful commercialization would increase the value of the underlying asset (i.e. the seller benefits because it receives the payment).

Therefore, ABC concludes that the contingent consideration is not in the scope of Topic 815. Accordingly, ABC determines that the contingent consideration is in the scope of Topic 450.

At the time of the acquisition, ABC determines that the occurrence of the future event is not probable, and therefore it does not recognize a liability for the contingent consideration.

ABC determines that the fair value of the assets acquired is \$10,000 consistent with the highest and best use of the assets by market participants.

Deferred income taxes and transaction costs are not considered in this example.



## 4. Allocating the cost of an asset acquisition

On the acquisition date, ABC recognizes the assets acquired based on their relative fair values, as follows.

	Fair value	Relative percentage	Allocated amount
Technology	\$ 7,000	70%	\$5,600
Tradename	2,000	20%	1,600
Equipment	1,000	10%	800
<b>Totals</b>	<b>\$10,000</b>	<b>100%</b>	<b>\$8,000</b>

At the acquisition date, the technology is IPR&D without an alternative future use, and therefore ABC expenses the \$5,600 allocated to it.

One year after the acquisition, ABC has successfully developed the technology into a marketable product, which triggers the obligation to pay the additional \$4,000 of consideration. Therefore, ABC recognizes an additional liability of \$4,000.

ABC treats the additional contingent consideration as an additional element of cost and allocates the amount to all of the assets based on their relative fair values on the acquisition date.

	Fair value	Relative fair value %	Additional allocation
Technology	\$ 7,000	70%	\$2,800
Tradename	2,000	20%	800
Equipment	1,000	10%	400
<b>Totals</b>	<b>\$10,000</b>	<b>100%</b>	<b>\$4,000</b>

ABC capitalizes the \$2,800 allocated to the technology, because it is no longer IPR&D. ABC records the following journal entry.

	Debit	Credit
Technology	2,800	
Tradename	800	
Equipment	400	
Liability		4,000
<i>To record additional consideration in asset acquisition.</i>		



### Question 4.8.30

**Does the acquirer catch up depreciation when recognizing additional cost basis from contingent consideration after the acquisition date?**

**Interpretive response:** We understand that practice in this area is mixed.

Some acquirers recognize depreciation and amortization on the incremental cost prospectively from the date those amounts are capitalized. The basis for this approach is by analogy to superseded guidance on accounting for purchase business combinations. [\[APB 16.80, FAS 141.31\]](#)

Alternatively, some acquirers 'catch up' the depreciation and amortization expense to the amounts the acquirer cumulatively would have recognized if the incremental cost had been recognized at the acquisition date. This approach is based on an analogy to current US GAAP on measurement period adjustments for business combinations. [\[805-10-25-17\]](#)

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# 5. SEC reporting considerations

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## 5.1 Overview

When an SEC registrant or any of its majority-owned subsidiaries acquires an asset or group of assets, it needs to consider the SEC’s specific definition of a business and the resulting reporting requirements.

If the transaction is an acquisition of a business as defined by the SEC, depending on the significance of the acquisition, a registrant may be subject to the Form 8-K reporting requirements to inform investors of the significant event. Additionally, a registrant may be required to file separate audited financial statements of the acquired entity under SEC Regulation S-X Rule 3-05, or Rule 8-04 for smaller reporting companies, and pro forma financial information under SEC Regulation S-X Article 11.

When a registrant acquires real estate operations, the registrant may be required to provide abbreviated income statements under SEC Regulation S-X Rule 3-14, or Rule 8-06 for smaller reporting companies. This section provides a brief summary of the SEC rules and regulations.

## 5.2 SEC definition of a business



### Excerpt from S-X Rule 11-01

- d. For purposes of this rule, the term business should be evaluated in light of the facts and circumstances involved and whether there is sufficient continuity of the acquired entity’s operations prior to and after the transactions so that disclosure of prior financial information is material to an understanding of future operations. A presumption exists that a separate entity, a subsidiary, or a division is a business. However, a lesser component of an entity may also constitute a business. Among the facts and circumstances which should be considered in evaluating whether an acquisition of a lesser component of an entity constitutes a business are the following:
1. Whether the nature of the revenue-producing activity of the component will remain generally the same as before the transaction; or
  2. Whether any of the following attributes remain with the component after the transaction:
    - i. Physical facilities,
    - ii. Employee base,
    - iii. Market distribution system,
    - iv. Sales force,
    - v. Customer base,
    - vi. Operating rights,
    - vii. Production techniques, or
    - viii. Trade names.

The Regulation S-X definition of a business for SEC reporting purposes is different from the definition in Topic 805 for US GAAP accounting purposes.

Therefore, it is possible for an acquisition to be considered a business under the SEC definition but not a business under Topic 805, and vice versa. [S-X 11-01(d)]

S-X Rule 11-01(d) identifies a series of criteria that a registrant should consider in determining whether an acquisition constitutes a business. It indicates that a key consideration in determining whether a business has been acquired is the continuity of the acquired entity's operations before and after the transaction – i.e. whether the revenue-producing activities generally remain the same before and after the acquisition.

Because the US GAAP definition of a business under Topic 805 focuses on aspects of an acquisition different from S-X Rule 11-01(d), the acquisition of a set of activities and assets may not meet the definition of a business under US GAAP, but could under the SEC definition and therefore could be subject to the SEC's reporting requirements for business acquisitions.

A registrant may classify an acquisition in one of three ways:

- there will be continuity of operations;
- there will be no continuity of operations; and
- there will be an acquisition of assets only.

When the acquired business maintains continuity of operations, S-X Rule 3-05 (or 8-04) may apply and financial statements of the acquired business are required if the acquisition is significant. For the remaining two classifications, S-X Rule 3-05 (or 8-04) does not require financial statements.



### Question 5.2.10

**What is the difference between an acquisition with no continuity of operations and an asset acquisition?**

**Interpretive response:** An acquisition is an acquisition of assets under the SEC definition if there has been or will be a distinct curtailment of revenue-producing activities. One indicator of an asset acquisition under the SEC's definition is that none of the purchase price is allocated to goodwill. However, this indicator may not apply in certain industries in which usually there is little to no goodwill in an acquisition, e.g. real estate operations, oil and gas properties and bank branches.

It often is difficult to distinguish between an asset acquisition and an acquisition of a business in which there is a lack of sufficient continuity. However, because both determinations result in the same conclusion (i.e. no financial statements are required), it is not necessary to distinguish between them for SEC reporting purposes. In some circumstances, it may appear that an acquisition merely is an acquisition of an asset. However, if the asset attaches to a revenue-generating activity, it may constitute an acquisition of a business.



### Question 5.2.20

#### Does an acquired bank branch meet the SEC's definition of a business?

**Background:** Bank acquired the deposits and inconsequential assets of a thrift entity's branch. It also assumed the existing lease on the facilities. In addition, Bank agreed to employ the branch's staff. Bank did not acquire the branch's loan-generating activities.

**Interpretive response:** The SEC staff has indicated that when a registrant does not acquire loans generated by a branch or the loan origination personnel, even though loans are managed at a central location other than the branch, the registrant has not acquired a business for SEC reporting. But if the branch did not generate loans as part of its normal operations and the acquisition of deposits represents substantially all the business of the branch, the registrant would have acquired a business for SEC reporting.

By contrast, whether an acquired branch meets the definition of a business under US GAAP usually depends on whether the acquirer obtained a substantive process. For example, if the only employees acquired are bank tellers without specialized skills, an acquirer might conclude that the acquired asset does not include an organized workforce that is critical to developing or converting the acquired inputs into outputs. See Example 2.20 in the [BC Handbook](#).



### Example 5.2.10

#### Defining a business – oil and gas property

Oil Co regularly acquires working interests in oil and gas properties from major petroleum companies. Its strategy is to acquire interests in properties when less than 20% of the oil and gas reserves remain.

Because the acquisitions target producing properties and there is a ready commodity market for the product, Oil Co considers each acquisition to be a business for SEC reporting purposes. This is regardless of whether a property meets the definition of a business under US GAAP.

For example, a property might meet the screening test in Topic 805 (see section 2 of the [BC Handbook](#)), in which case Oil Co would account for its acquisition as an asset acquisition but would still comply with the SEC reporting requirements for the acquisition of a business.

## 5.3 Reporting requirements on Form 8-K



### Excerpt from Form 8-K

#### Item 2.01 Completion of Acquisition or Disposition of Assets.

If the registrant or any of its subsidiaries consolidated has completed the acquisition or disposition of a significant amount of assets, otherwise than in the ordinary course of business, or the acquisition or disposition of a significant amount of assets that constitute a real estate operation as defined in §210.3-14(a)(2), disclose the following information:

- a. the date of completion of the transaction;
- b. a brief description of the assets involved;
- c. the identity of the person(s) from whom the assets were acquired or to whom they were sold and the nature of any material relationship, other than in respect of the transaction, between such person(s) and the registrant or any of its affiliates, or any director or officer of the registrant, or any associate of any such director or officer;
- d. the nature and amount of consideration given or received for the assets and, if any material relationship is disclosed pursuant to paragraph (c) of this Item 2.01, the formula or principle followed in determining the amount of such consideration;
- e. if the transaction being reported is an acquisition and if a material relationship exists between the registrant or any of its affiliates and the source(s) of the funds used in the acquisition, the identity of the source(s) of the funds unless all or any part of the consideration used is a loan made in the ordinary course of business by a bank as defined by Section 3(a)(6) of the Act, in which case the identity of such bank may be omitted provided the registrant:
  1. has made a request for confidentiality pursuant to Section 13(d)(1)(B) of the Act; and
  2. states in the report that the identity of the bank has been so omitted and filed separately with the Commission; and
- f. if the registrant was a shell company, other than a business combination related shell company, as those terms are defined in Rule 12b-2 under the Exchange Act (17 CFR 240.12b-2), immediately before the transaction, the information that would be required if the registrant were filing a general form for registration of securities on Form 10 under the Exchange Act reflecting all classes of the registrant's securities subject to the reporting requirements of Section 13 (15 U.S.C. 78m) or Section 15(d) (15 U.S.C. 78o(d)) of such Act upon consummation of the transaction. Notwithstanding General Instruction B.3. to Form 8-K, if any disclosure required by this Item 2.01(f) is previously reported, as that term is defined in Rule 12b-2 under the Exchange Act (17 CFR 240.12b-2), the registrant may identify the filing in which that disclosure is included instead of including that disclosure in this report.



## Excerpt from S-X Rule 11-01

- b. A business acquisition or disposition will be considered significant if:
1. The business acquisition meets:
    - i. The definition of a significant subsidiary S-X Rule 1-02(w)(1), substituting 20 percent for 10 percent each place it appears therein; or
    - ii. If the business is a real estate operation as defined in S-X Rule 3-14(a)(2), the significant subsidiary condition in S-X Rule 1-02(w)(1)(i) (i.e., the investment test condition), substituting 20 percent for 10 percent, as modified by the guidance in S-X Rule 3-14(b)(2)(ii).
  2. The business disposition, including a business that is a real estate operation as defined in S-X Rule 3-14(a)(2), meets the definition of a significant subsidiary in S-X Rule 1-02(w)(1), substituting 20 percent for 10 percent each place it appears therein.

Domestic public companies subject to the Securities Exchange Act of 1934 periodic reporting requirements must file a Form 8-K when certain events occur. Under Item 2.01 of Form 8-K, an acquisition or disposition of a significant business or assets must be reported on Form 8-K within four business days after consummation. Therefore, this filing requirement can apply to both business combinations and asset acquisitions.

To appropriately characterize the transaction on Form 8-K, a registrant needs to determine whether a business or assets have been acquired. This determination is also important when analyzing the significance of the transaction because there is a lower significance threshold for asset acquisitions than for business combinations. [\[S-X 11-01\(b\), 11-01\(d\)\]](#)

The following table summarizes the Form 8-K reporting requirement differences between an asset acquisition and business combination.

	Asset acquisition	Business acquisition
<b>Significance threshold and test</b>	10% Instruction 4(i) Item 2.01 of Form 8-K	20% S-X Rule 1-02(w)
<b>Financial statements required under S-X Rules 3-05 or 8-04?</b>	No (but see below)	Yes
<b>Pro forma information required under S-X Rule 11-02(c)?</b>	No (but see below)	Yes

Special rules apply to acquisitions of real estate (see [section 5.4](#)).

When a registrant acquires a significant asset or group of assets, the disclosures in Item 2.01 of Form 8-K should clearly describe the assets acquired



and the anticipated effects on the registrant's financial condition. It also should indicate that the acquisition did not constitute the acquisition of a business as defined by S-X Rule 11-01(d). When such information is material to investors, the registrant is required to include pro forma information reflecting the effects of the asset acquisition.

A registrant must file the required disclosures on Form 8-K (under Item 2.01) within 4 days of consummation; the 71-day extension for filing financial statements of an acquired business does not apply. [\[Form 8-K\]](#)

## 5.4 Acquisitions of real estate

S-X Rule 3-14 defines a real estate operation as a business (as defined by S-X Rule 11-01) that generates substantially all of its revenues through the leasing of real property. The term 'substantially all' in the definition of a real estate operation is not meant to be a bright line and therefore is not further defined. As a result, the application of the definition of a real estate operation depends on specific facts and circumstances, and the difference between a real estate operation and a business may be difficult to determine. [\[S-X 3-14 \(a\)\(2\)\(i\)\]](#)

S-X Rules 3-05 and 8-04 do not apply to acquisitions of real estate operations. Instead, S-X Rules 3-14 and 8-06 prescribe the financial statement requirements for real estate operations. While the requirements of Rules 3-14 and 3-05 are substantially aligned where no unique industry considerations exist, Rule 3-14 requires the significance to be evaluated based solely on the investment test of Rule 1-02(w) of Regulation S-X. [\[S-X 3-14 \(b\)\(2\)\]](#)

When evaluating significance using the investment test, under Rule 3-14, if the aggregate worldwide market value is not available, the investment test:

- numerator is the registrant's investments in the real estate operations, including any debt secured by the real properties that is assumed by the registrant; and
- denominator is the registrant's total assets as of the end of the most recently completed fiscal year. [\[S-X 3-14 \(b\)\(2\)\(ii\)\]](#)

The SEC staff has noted that the reduced financial statement requirements available to real estate operations are premised on continuous and predictable cash flows ordinarily associated with commercial and apartment property leasing – e.g. in shopping centers and malls. By contrast, nursing homes, hotels, motels, golf courses, auto dealerships, equipment rental operations and other businesses that have greater variations in costs and revenues over shorter periods due to market and managerial factors are not considered real estate operations. [\[FRM 2305.2\]](#)

Where a registrant acquires an equity interest in a preexisting operating partnership, LLC, or corporation holding only real estate under lease and related debt, the registrant provides financial statements of the underlying properties meeting the requirements of S-X Rule 3-14 if the 20% significance threshold is met. The SEC staff may also accept financial statements meeting the requirements of S-X Rule 3-05 in this situation.

However, when a registrant acquires an equity interest in a preexisting legal entity that engages in other activities, such as property management or development, in addition to holding real estate, the registrant should consider whether the acquired entity is a business rather than a real estate property. If the entity is a business, financial statements meeting the requirements of S-X Rule 3-05 are required if the 20% significance threshold is met. [FRM 2305.3]

The SEC staff views an investment in a newly formed partnership or corporation (either consolidated or accounted for using the equity method) that will acquire real estate properties under lease simultaneously with or soon after its formation as, in substance, the acquisition of properties by the registrant. In these circumstances, the SEC staff requires S-X Rule 3-14 or 8-06 financial statements of the underlying property being acquired instead of S-X Rule 3-05 financial statements of the newly formed entity. This assumes that the new entity has no other activities besides leasing real property. [FRM 2305.4]

Examples 5.4.10 and 5.4.20 contrast the application of S-X Rule 11-01(d) involving the acquisition of a business and S-X Rule 3-14 or 8-06 involving real estate operations to be acquired.



### Example 5.4.10 Acquiring real estate as a business

A real estate investment trust (REIT) acquires 10 operating hotels, including the real estate in which the hotels conduct their operations. Immediately after the acquisitions, REIT will sell the hotel operations to operating partnerships, but will retain the real estate and lease it to the operating partnerships.

Because REIT is acquiring a business as a vehicle to retain real estate to be leased rather than a business that was generating revenues from leasing, the financial statement requirements are determined under S-X Rule 3-05.



### Example 5.4.20 Acquiring real estate operations

REIT acquires land and buildings from an individual who leases properties to a nursing home operator. The operator will continue to lease the facilities from REIT.

The acquisition consists of real estate operations, and therefore the financial statement requirements are determined under S-X Rule 3-14.

## 5.5 Reverse acquisitions and reverse capitalizations with a shell company

For reverse acquisitions and reverse recapitalization transactions between a shell company that is a registrant and a private operating company whereby the

registrant ceases to be a shell company, a Form 8-K that includes information satisfying Items 2.01, 5.01, 5.06, and 9.01 must be filed no later than four business days after the consummation of the acquisition. [\[FRM 12220.1\]](#)

The Form 8-K must include for the private operating company all content required by a Form 10 initial registration statement, which replaces the shell company's historical financial statements (as predecessor of the registrant) in future filings. [\[FRM 1140.7, 12220.1\]](#)

The financial statement periods required in the Form 8-K are based on the earlier of the filing date of the Form 8-K or the due date of the Form 8-K reporting the transaction. Under Form 8-K, Item 9.01(c), there is no 71 calendar day extension to file the financial statements of the private operating company, the pro forma information, or other required information. [\[FRM 12220.1\]](#)

Whether the accounting acquirer qualifies as a smaller reporting company determines the disclosure and age of financial statements to be included in the Form 8-K.

- If the accounting acquirer meets the definition of a smaller reporting company, the age of its financial statements required to be included in the Form 8-K is determined by applying S-X Rule 8-08.
- An accounting acquirer not meeting the definition of a smaller reporting company should comply with the age of financial statement requirements in S-X Rule 3-12. [\[FRM 12220.1\]](#)

The financial statements of the private operating company may require updating after the Form 8-K is filed to avoid a gap in reporting. Depending on the due date or filing date of the Form 8-K, whichever is earlier, the financial statements of the private operating company required by Items 2.01(f) and 9.01 of Form 8-K may not include the most recent full fiscal year or latest quarter end. [\[FRM 12220.1\]](#)

However, the surviving entity is required to file the information *that would be* required to be included in an annual or quarterly report for the private operating company for the most recent full fiscal year or latest quarter-end on a Form 8-K within the time period specified in the appropriate annual or quarterly report form. [\[FRM 12220.1\]](#)

In addition to its applicable annual and quarterly reports, the registrant must file an amended Form 8-K with the financial statements of the private operating company's most recently completed annual or quarterly period before the date of the reverse recapitalization, as applicable, within 90 or 45 days, respectively, after the private operating company's period end (assuming the registrant is a non-accelerated filer). [\[FRM 12220.1\]](#)

# Definitions

The following are select definitions from Topic 805.



## Excerpts from ASC 805-10

### **Business**

**805-10-55-3A** An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. To be considered a business, in integrated set must meet the requirements in paragraphs 805-10-55-4 through 55-6 and 805-10-55-8 through 55-9.

### **Control**

**810-10-15-8** For legal entities other than limited partnerships, the usual condition for a controlling financial interest is ownership of a majority voting interest, and, therefore, as a general rule ownership by one reporting entity, directly or indirectly, of more than 50 percent of the outstanding voting shares of another entity is a condition pointing toward consolidation. The power to control may also exist with a lesser percentage of ownership, for example, by contract, lease, agreement with other stockholders, or by court decree.

### **20 Glossary**

#### **Business Combination**

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations.

#### **Equity Interests**

Used broadly to mean ownership interests of investor-owned entities; owner, member, or participant interests of mutual entities; and owner or member interests in the net assets of not-for-profit entities.

#### **Fair Value**

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### **Goodwill**

An asset representing the future economic benefits arising from other assets acquired in a business combination or an acquisition by a not-for-profit entity that are not individually identified and separately recognized. For ease of reference, this term also includes the immediate charge recognized by not-for-profit entities in accordance with paragraph 958-805-25-29.

**Noncontrolling Interest**

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

# Index of changes

This index lists the significant additions and changes made in this edition to assist you in locating recently added or updated content. Sections and Questions that have been significantly updated or revised throughout the Handbook are identified with #.

## 2. Scope of Subtopic 805-50

### Question

- 2.1.10 Does the guidance on asset acquisitions apply to a primary beneficiary when it initially consolidates a VIE that is not a business? #

## 3. Cost of acquired assets

### Question

- 3.4.10 How does the acquirer measure a previously held equity interest in a step acquisition of assets? #

## 4. Allocating the cost of an asset acquisition

- 4.2 Intangible assets acquired in an asset acquisition #

- 4.3 Leases #

### Questions

- 4.2.20 Is IPR&D recognized in an asset acquisition? #
- 4.3.10 Does the acquirer reassess lease classification in an asset acquisition? #
- 4.3.20 How does an acquirer account for its interest in an acquired lease in an asset acquisition? #
- 4.7.10 How are deferred taxes for temporary differences measured in an asset acquisition? #

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