

January 21, 2016

Submitted via email: [director@fasb.org](mailto:director@fasb.org)

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

File Reference No. 2015-330

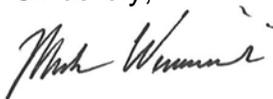
Dear Technical Director:

The Technical Issues Group (TIG) of the Missouri Society of CPAs (MSCPA) appreciates the opportunity to respond to certain matters in the Proposed Accounting Standards Update. The views expressed herein are written on behalf of the TIG of the MSCPA. The TIG has been authorized by the MSCPA Board of Directors to submit comments on matters of interest to the society's membership. The views expressed in this letter have not been approved by the MSCPA Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policy of the MSCPA.

We generally agree with the direction taken by the Financial Accounting Standards Board (Board). We agree Proposed Accounting Standards Update No. 2015-330 meets the objectives of financial reporting by providing more consistency in the definition of a business and reducing the cost and complexity for preparers when evaluating acquisitions and disposals of assets and businesses, however, we suggest the Board evaluate the impact of the Master Glossary changes on certain topics. Our concerns are discussed in detail in our response to question 12.

Thank you for considering our comments. We would be pleased to respond to any questions the Board or its staff may have about any of the following comments. Please direct any questions to Mark Winiarski, TIG Chairman, [MWiniarski@CBIZ.com](mailto:MWiniarski@CBIZ.com).

Sincerely,



Mark Winiarski, CPA  
TIG Chairman



Robert A. Singer, Ph.D., CPA  
Project Leader



Jeff Antrainer  
Project Leader

The following responses address selected questions:

**Question 1:** Do you agree that to be a business a set of assets and activities must include, at a minimum, an input and a substantive process that together contribute to the ability to create outputs? If not, what other alternatives would you suggest?

**Response:** Yes, we believe that to be a business, a set of assets and activities must include, at minimum, an input and a substantive process that together contribute to the ability to create outputs. Firms acquire other firms for any number of reasons, such as gaining exclusive rights to an acquired firm's patents, access to limited resources, a skilled labor force capable of carrying out research and/or utilizing complex machinery in a production process. Often decisions to acquire an existing "business" are motivated by a desire to capture synergies between firms that make the combined firm more valuable than the sum value of the individual companies. What distinguishes the acquisition of a business from that of specific assets or asset groups is the ability of the acquiring firm to manage the acquired resources in a manner that makes the combined entity more valuable as a whole rather than the added value of the specific assets included in the purchase. The ability of the acquiring firm to combine the resources of the acquired firm with those of its own in a value maximizing manner is the result of well-defined strategic, operational and resource deployment processes. We believe that it is an entity's ability to apply these substantive processes to the tangible and intangible assets of the acquired firm (inputs) and create outputs in the form of goods or services for customers, other revenues or investment income that distinguishes a business acquisition from a mere purchase of individual assets. In this regard, we believe that the provisions in this update clearly define when a set includes both an input and a substantive process with respect to when a set does not have outputs (5A) and when it does have outputs (5B). Moreover, it is the ability to create outputs irrespective of whether they are ultimately realized that distinguishes the purchase of a business from that of a purchase of specific assets.

**Question 2:** Paragraphs 805-10-55-5A through 55-5D provide guidance on determining whether a set contains an input and a substantive process that together contribute to the ability to create outputs. Are the criteria appropriate, and would they be operable in practice? If not, why?

**Response:** We believe that these paragraphs provide guidance with respect to whether the nature and substance of an acquisition meet the definition of a business as specified in 805-10-55-3A and the incorporation of the three elements: input, process, and output as specified in 805-10-55-4. Paragraph 805-10-55-5A provides clarity over existing GAAP in determining whether a purchase of economic resources constitutes a business where an output (e.g., goods) is lacking. The existence of an "organized workforce" capable of converting acquired economic resources, tangible as well as intangible, into a marketable product or service culminating in future benefits suggests the purchase of a business rather than that of specific assets. Restricting "organized workforce" to highly skilled employees capable of managing, integrating, and converting acquired inputs into inventory, services, financial products and new technologies is consistent with the

requirement that the process be of a substantive nature. Moreover, subparagraphs b under 5A provide clarity regarding the nature of the types of inputs requiring a “substantive process” that such an organized workforce could apply in generating valuable outputs. Evaluating these provisions will require the use of judgment, but they are understandable and a reasonable qualitative analysis should be possible, therefore we believe they are operable.

**Question 3:** Would the proposed guidance be operable without the criteria in paragraphs 805-10-55-5A through 55-5D? Why or why not?

**Response:** Based on our response to question 2, we do not believe that the guidance would be operable without the criteria in paragraphs 805-10-55-5A through 55-5D. To some extent, the criteria and the various examples applying the criteria provide the entity with the necessary direction in distinguishing a purchase or disposal of a business from that of specific assets. We note that the creation of any list of criteria risks a “check-list” or “bright line” mentality being used when applying guidance, however we believe that the criteria outlined are necessary in order to achieve consistency in the analysis of the definition of a business across entities. In particular, these criteria are helpful to entities that have limited accounting resources, such as many private companies.

**Question 4:** Paragraph 805-10-55-9 provides that the presence of more than an insignificant amount of goodwill may be an indicator that an acquired process is substantive. Do you think this indicator is appropriate and operable? Why or why not?

**Response:** No, we do believe that such an indicator is neither appropriate nor operable. First, the question of what constitutes an insignificant amount of goodwill is vague and difficult to evaluate. What “bright lines” might constitute whether goodwill existing among other tangible and intangible assets on the seller’s balance sheet is significant? Second, some may confuse the guidance and look to the existing balance sheet of the acquired entity. In that scenario, it would be difficult to judge if goodwill existing on the seller’s balance sheet is the result of an acquisition(s). Did the seller undervalue the acquired firms’ net assets at acquisition date? Did the seller pay too much for the acquired firms? Thus, the presence or lack thereof of goodwill is an impractical and overly subjective criterion for evaluating whether an acquired process is substantive. An alternative indicator might be to relate sales (revenues) to R&D expense over a period of years and calculate an annualized growth rate from an appropriate base year (i.e., a horizontal analysis). Evidence that an acquired process is substantive might be indicated if the ratio is increasing over time. There are other approaches that might be incorporated, but any at best would be overly subjective and at worst result in an incorrect classification of the purchase. Ultimately, the decision will require significant judgment, and a number of possible measures may be relevant in some situations and irrelevant in others. Finally, the proposed guidance may be interpreted as implying an entity is required to determine the amount of goodwill prior to concluding whether a business exists. Such an interpretation may result in entities performing valuations for acquisitions that end up

being treated as asset acquisitions, thus eliminating the benefits of the standard and increasing the cost of applying GAAP.

**Question 5:** Do you agree with the changes proposed to the definition of outputs? That is, do you agree that for purposes of evaluating whether a transferred set is a business, outputs should be focused on goods and services provided to customers? If not, why?

**Response:** On one hand, limiting the definition of outputs to goods and services to customers (or investment income if the acquisition is the purchase of an investment company) makes it somewhat easier to differentiate the benefits of acquiring a business from that of an asset or group of assets. On the other hand, a company could acquire specific productive machinery and supporting resources (e.g., material, machine operators), and improve and expand output without having to acquire an entire business. Thus, in terms of the update, restricting the definition of output to goods and services to customers is not any more or less beneficial than the existing definition in terms of classifying the purchase as a business or an asset/asset grouping. A second point that might be made is that the definition of output might be expanded to include the development of a potentially valuable patent, which could allow the firm to realize future revenues or significant cost reduction.

**Question 6:** Paragraphs 805-10-55-9A through 55-9C specify that if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset, the set is not a business. Is it appropriate to include such a threshold, and would it be operable? If not, why?

**Response:** We believe that a concentration of substantially all of the fair value of acquired gross assets in a single identifiable asset is an appropriate threshold with which to evaluate whether a set is not a business. However, a determination of such a concentration is subjective, and whether such a threshold is operative would depend on the nature and characteristics of the gross assets comprising the single identifiable asset.

**Question 7:** The threshold in paragraph 805-10-55-9A also applies to a group of similar identifiable assets. Would the identification of a group of similar identifiable assets be operable? If not, why?

**Response:** We believe that the threshold is reasonable and applicable to a group of similar identifiable assets for the same reason posited in our response to question 6. Whether such identification is operable would depend on the nature of the transaction and the characteristics of the group of similar identifiable assets.

**Question 8:** Will the proposed guidance reduce the cost and complexity of applying the definition of a business? Why or why not?

**Response:** In most purchase transactions, the distinction between an asset purchase and that of a business is straightforward. The relevance and applicability of this update

to Topic 805 would relate to industries such as real estate, pharmaceuticals, and communications where it is often difficult to differentiate a purchase of specific asset or asset groupings from that of a business. The examples cited in the update illustrate how making the distinction can be problematic in acquisitions involving real estate, and pharmaceutical companies. In this regard, the update provides a blueprint for management to follow in evaluating and determining the proper classification of such transactions. The cost and complexity associated with following that blueprint have to be measured against the benefits associated with clearly distinguishing an asset from a business purchase. For example, if deemed an asset purchase, the recorded asset is valued at cost, which includes all of the incidental administrative expenditures associated with getting the asset ready for use. In contrast, if deemed a business, under the acquisition method, the acquiring company must record the net assets of the acquired entity at their fair value at acquisition date. A plethora of accounting effects arising from an incorrect classification could have a potentially adverse impact on the purchaser's financial statements.

Overall, we believe the effect of the proposed definition would be to increase the complexity of applying the definition of a business in the industries identified above because it will require more judgment than the existing definition. However, the total cost of applying the definition combined with the reduced instances of the application of the acquisition method will reduce the total cost and complexity of GAAP for those industries.

**Question 9:** How much time would be necessary to adopt the amendments in this proposed Update? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities?

**Response:** The amount of time necessary to adopt the amendments in this proposed update would depend on the complexity of the purchase, and the resources available to apply the provisions for defining whether a purchase is a business. We believe that the beneficial effects of providing guidance in defining whether a purchase is business versus that of an asset purchase argue in favor of early adoption. The amount of time needed to apply the proposed amendments by entities other than public business entities would depend on the nature of the entity: private companies, non-for profit, etc. and the resources available to implement the provisions of the update. Again, in most instances, the distinction between whether a purchase is a business or a group of assets is straightforward, and thus the update is more applicable in industries such as real estate, technology, pharmaceuticals where purchase transactions can be somewhat complex and where it is difficult to determine the nature of the purchase.

A delayed adoption increases the chance for decreased comparability and the potential to time transactions in order to achieve the outcome of an acquisition being a business or not a business. However, considering the complexity and the expected benefits noted above, we believe that these risks are minimal and a one-year period after issuance is appropriate for public business entities, with a one-year delay for private companies.

We believe that early adoption should be permitted so that entities may elect to obtain the benefits from the update.

**Question 10:** Do you agree that the amendments in this proposed Update should be applied prospectively to any transaction that occurs on or after the date of adoption, and do you agree that there should be no explicit transition disclosure requirements? Why or why not?

**Response:** We strongly believe that the amendments in this proposed Update should be applied prospectively. Retroactive application could result in re-classifications that would be costly to implement and audit. Any benefits to be derived from retroactive application in terms of informational content would not meet the cost–benefit constraint of providing more relevant information. Moreover, the amount of additional adjustments and disclosures might tend to confuse users rather than provide greater clarity. Because implementation of the proposed update will be more difficult for some than others, and less relevant to some companies, we believe it would be appropriate for transition disclosures when the change is material to the financial statements, such as when an entity is engaged in frequent business combinations and the effect of the change in definition is that some of the transactions cease to be accounted for under the business combination guidance.

**Question 11:** Do the examples in paragraphs 805-10-55-51 through 55-88 clearly illustrate the application of the proposed guidance? Why or why not?

**Response:** We believe that the examples in paragraphs 805-10-55-51 through 55-88 clearly illustrate the application of the proposed guidance. The order of the procedures applied in each case could result in an early determination of the proper classification. Application of paragraph 805-10-55-9A (the first step) involves consideration of the threshold: an analysis of “whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.” From here, if the analysis suggests that such concentration is contained within a single asset or asset grouping, the classification is deemed a purchase of assets and no further analysis is required. If not, the Update proceeds in a logical sequence with the second step involving an evaluation of whether the “set” has the minimum requirements to be considered a business. From here, the entity would be directed toward paragraph 805-55-5 and evaluate whether the acquisition involves acquired inputs and processes, which, when the latter is applied to the former, has the ability to create outputs. 805-55-5A-5D addresses situations where the set does or does not have outputs (i.e., goods/services, investment income). Whether a “substantive process” is acquired in both 5A and 5B depends on whether an organized workforce could develop or convert the output. In addition, if the set has output and therefore meets the criteria of 5B; and the process cannot be replaced without significant economic consequences, or it is considered unique or scarce, then the process is considered significant. Regardless of whether outputs are or are not generated at the time of acquisition, it is the ability to convert the “inputs” (e.g., raw materials, technology, strategic process) that governs whether the purchase is deemed the purchase of a

business. On reflection of each example, we believe that the Board has clearly demonstrated how the Update provides an organized methodology, which provides the entity a blueprint for making a determination of the classification of the purchase.

**Question 12:** Do the changes to the Master Glossary create any unintended consequences?

**Response:** We believe the potential unintended consequences are limited to the areas identified in the basis for conclusions, including disposals, goodwill impairment and consolidation. In particular, we are concerned about the potential impact on the business scope exception to the variable interest entity (VIE) consolidation guidance. We believe that the change in the definition may result in relationships between a reporting entity and certain third-party leasing entities ceasing to qualify for the business scope exception. This would occur because the leasing entities may meet the criteria of the “screen” and no longer be defined as a business. Failure of some entities to meet the business scope definition as a result of the proposed definition of a business will increase the complexity and cost of VIE accounting. The effect of this change may be mitigated by re-evaluating the conditions of the business scope exception and considering when it is appropriate to not apply the VIE guidance to an entity that is not a business.