



Pushdown Accounting – Changes May be on the Horizon

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The EITF is currently working on a project that could provide long-awaited guidance on when and how pushdown accounting should be applied in the financial statements of an acquired business. In the following Q&A, Mind the GAAP's Michelle Lew takes you through the EITF deliberations.



What is Pushdown Accounting?

Pushdown accounting occurs when an acquired entity adjusts the book value of its own assets and liabilities to reflect the accounting basis recorded by the acquirer. Said another way, pushdown accounting aligns the values of assets and liabilities in the acquiree's stand-alone financials with the values of its assets and liabilities as reported in the consolidated financials of the acquirer.

The Current State

For SEC registrants, pushdown accounting is¹:

- Mandatory when 95% or more of its ownership is acquired
- Permitted when 80% to 95% of its ownership is acquired, and
- Prohibited when less than 80% of its ownership is acquired

There are no similar guidelines on pushdown accounting for nonpublic companies in the FASB Codification. However, a nonpublic entity that chooses to apply the AICPA's Financial Reporting Framework for Small- and Medium-Sized Entities (FRF) is permitted but not required to use pushdown accounting when more than 50% of its equity interests have been acquired.

IFRS does not contain specific guidance on pushdown accounting.

¹ FASB Accounting Standards Codification, paragraphs 1-4 of ASC 805-50-S99

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Proposed Changes

The FASB staff has tentatively concluded that all entities should have the option of applying pushdown accounting when a change-in-control event occurs². Thus, for public companies, the recognition threshold for pushdown accounting would be reduced, as a change-in-control event is a lower hurdle than the current requirement of acquiring at least an 80% ownership stake. This proposal would align the recognition threshold between an acquirer's application of business combination accounting and an acquiree's (optional) use of pushdown accounting.

Interestingly, acquired entities will be offered the flexibility to decide whether or not to apply pushdown accounting for each individual change-in-control event. In other words, an entity can choose to carry over the historical basis of an acquired business for some change-in-control events, whilst applying pushdown accounting in other situations.

An acquired entity that elects to use pushdown accounting should record goodwill but not a bargain purchase. An acquired entity cannot record acquisition-related debt unless the debt is a liability of the acquiree.

Example:

Reporting Entity is jointly (50%) owned and controlled by Alpha Inc., a publicly traded company and Beta LLC., a non-public entity. Reporting Entity issues stand-alone financial statements to its lenders. In 2014, Reporting Entity conducts a share buy-back. Alpha did not participate in the buy-back, and as a result, obtained control of Reporting Entity. After the share buy-back, Alpha and Beta hold ownership interests of 66.7% and 33.3%, respectively, in Reporting Entity.

	Current Guidance	Proposed Guidance
Reporting Entity is a public entity	Reporting Entity cannot use pushdown accounting because Alpha has not acquired more than 80% of Reporting Entity.	As a change-in-control event has taken place, Reporting Entity is permitted, but not required, to use pushdown accounting in its separate financial statements.
Reporting Entity is a non-public entity	Currently, there is no guidance for non-public companies on the use of pushdown accounting.	

² FASB Emerging Issues Task Force Issue No. 12-F

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Main Effects of the EITF's Proposals

- Acquired entities will have greater flexibility to choose whether, and when, to apply pushdown accounting.
- As a tradeoff, there may be reduced comparability in the standalone financial statements of entities that have undergone acquisitions.

Expected Transition

The FASB staff has recommended that the new pushdown accounting guidance apply prospectively to new change-in-control events, whilst also giving entities the option to apply the guidance retrospectively. At this this time, an effective date has not been announced.

Next Steps

A proposed ASU will be issued if the FASB ratifies this proposal at its March 26, 2014 meeting. It remains to be seen if and when the SEC will rescind its current guidance on registrants' use of pushdown accounting.

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