

Letter of Comment No: 15  
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**Indiana University Kelley School of Business Indianapolis  
Students in Master of Professional Accountancy Program**

October 19, 2005

Ms. Suzanne Q. Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5112  
Norwalk, CT 06856-5116

***RE: FASB Exposure Draft, Proposed Statement of Financial Accounting Standards,  
"Business Combinations, a replacement of FASB Statement No. 141"***

Dear Ms. Bielstein:

As students in the Master of Professional Accountancy program at the Indiana University Kelley School of Business Indianapolis, we are pleased to submit the following viewpoints regarding the Board's proposed replacement of FASB Statement No. 141.

**Objective, Definition, and Scope**

**Question 1**

We believe the objective and definition of a business combination are appropriate for accounting for all business combinations at this time.

**Definition of a Business**

**Question 2**

We believe the definition of a business and the additional guidance provided is appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business. This Exposure Draft would greatly improve consistency and simplicity in determining when a business is acquired.

## **Measuring the Fair Value of the Acquiree**

### **Question 3**

We agree in principle with the proposed changes identified in question 3. However, we have difficulty agreeing with the Board that the non-controlling interest of goodwill should be included in the fair value of the interest of the acquiree. The goodwill created is representative of the premium paid on the acquired assets, but not representative of any premium that could be paid on the remaining assets. To include 100% goodwill in the financial statements of the acquiree does not faithfully represent the entire transaction. There is no support that a premium would be paid on the remaining assets; thus, the goodwill related to the non-controlling interest could potentially misstate the true value of the transaction.

### **Question 4**

The Board provides significant guidance on how to measure the fair value of the acquiree. However, examples should be provided describing the market and income approaches and the variations of these approaches such as the in-use and in-exchange methods. Providing more thorough guidance will increase comparability of fair value measurement between entities.

### **Question 5**

We agree with the Board that the acquisition date fair value of the consideration transferred is the most appropriate date on which to measure the fair value of the acquirer's interest in the acquiree because it improves the faithful representation of the transaction. Although the Board proposes that the acquisition date is the best date to measure the fair value, the Board, as described in B161-B167, also recognizes that information may not be available on the acquisition date to measure the fair values of the consideration transferred. The Board should provide examples of what types of information could become available during this measurement period and what disclosures should be made in the accounting for the business combinations.

### **Question 6**

Due to the inherent uncertainties of contingent considerations, we believe these considerations should not be included in the calculation of the fair value of the consideration transferred. If it is necessary to include the contingent considerations in the measurement of fair value, then we agree with the Board that contingent considerations classified as equity should not be re-measured and that any contingent considerations classified as liability should be re-measured, with any adjustments included in income.

### **Question 7**

We do not agree with the Board's conclusion that the costs such as finder's fees, legal fees, accounting fees, and other administrative costs incurred in connection with a business combination are not assets and should be excluded from the measurement of the consideration given or exchanged for the interest in the acquiree. Assets are defined in FASB Concepts Statement No. 6, *Elements of Financial Statements*, as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." These acquisition costs are incurred by the acquirer to receive a future economic benefit from the interest in the acquiree; therefore, they should be classified as assets. Current practice holds that when acquiring an asset, acquisition costs related to that asset should be capitalized and included with the value of the asset. Deviating from this practice in business combinations increases inconsistency between transactions and undermines the definition of an asset as described in the conceptual framework.

These costs should also be included in the measurement of the fair value of the interest of the acquiree because these expenditures are essential and unavoidable in a business combination and are inherently included in the price of the interest in the acquiree. Therefore, we believe the measurement of the fair value of the interest in the acquiree should include not only the consideration transferred to the acquiree, but also the direct costs to transfer this consideration. Including these direct costs will capture the true value of the interest of acquiree to the acquirer and measure the exact resources the acquirer has exhausted to obtain the interest in the acquiree.

### **Measuring and Recognizing the Assets Acquired and the Liabilities Assumed**

#### **Questions 8**

We agree with some of the proposed changes made by the Board regarding measuring and recognition of assets acquired and liabilities assumed; however, we believe there is one proposed change that should be considered further. The Board concluded that the recognition of contingencies would improve the fair representation of financial information. Assets and liabilities arising from contingencies would be recognized even though they do not meet the recognition criteria in FASB Statement No. 5. However, if the fundamental recognition criteria in FASB Statement No. 5, such as definitions, measurability, relevance, and reliability, are not required, recognizing contingent assets and liabilities would impair the qualitative characteristics of accounting information such as relevance, reliability and measurability. Since there would be uncertainty until events are resolved, the recognition of contingencies would potentially misrepresent the financial information that decision makers use. To provide useful (relevant and reliable) information and to represent financial information fairly, disclosure of contingencies arising from a business combination appears to be sufficient.

#### **Question 9**

We agree with the particular exceptions to the fair value measurement principle, such as assets held for sale, deferred taxes, operating leases, and employee benefit plans. However, we do not agree with exceptions to goodwill, which is recognizing 100% of goodwill including non-

controlling interests. The goodwill created is representative of the premium paid on the acquired assets, but not representative of any premium that could be paid on the remaining assets. As a result, we believe that recognizing goodwill for non-controlling shares would misrepresent the financial statements. Further details on recognition of goodwill are presented in the question 3.

### **Additional Guidance for Applying the Acquisition Method to Particular Types of Business Combinations**

#### **Question 10**

It is appropriate for the acquirer to recognize the income from any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree.

#### **Question 11**

We agree with the Board in recognizing gains for bargain purchases because the acquirer receives economic gains from these transactions.

#### **Question 12**

We do not believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date. It would be rare that management would have reliable information that they overpaid in the first place at the acquisition date. If an acquirer had accurate and verifiable information that there was an overpayment at the acquisition date, it seems only logical that that amount would not be paid. Therefore, if there is a potential overpayment, the subsequent impairment testing recommended by the Board in paragraph B183 is adequate.

### **Measurement Period**

#### **Question 13**

We agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments because the comparability achieved through this process would outweigh the costs of the adjustments.

### **Assessing what is part of the Exchange for the Acquiree**

#### **Question 14**

We believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree. The examples provided are reasonable and provide consistency in financial reporting and faithfully represented business combinations.

## **Disclosures**

### **Question 15**

We agree with the disclosure objectives and the minimum disclosure requirements. If accounting consideration for contingencies were to change, in reference to questions 6 and 8, then the Board would need to re-evaluate the need for additional disclosures in this area.

## **The IASB's and the FASB's Convergence Decisions**

### **Question 16**

We believe that there are some intangible assets that cannot be measured with sufficient reliability and do not qualify as goodwill. For example, as technology evolves and intellectual property (e.g., patents) become increasingly complex, many companies are exploring different alternatives to protect themselves. One of these alternatives is open source software, which in theory is free and cannot be patented. The development of this software creates an intangible asset for the company which cannot be sold, transferred, licensed, rented, or exchanged individually. Furthermore, the value from the open source software does not come directly from cash streams associated with the actual programming, but with the synergy that is created with other offerings of the company such as maintenance agreements and consulting services.

### **Question 17**

We agree that the change in the acquirer's valuation should not include deferred tax assets that result from a business combination. The concept of valuing a transaction and assets at fair market and then having a gain or loss in a subsequent period would undermine the original values generated during the business combination.

### **Question 18**

Although we feel that the whole convergence project cannot take place overnight, there are many disclosures that can be used as a bridge between the IASB and FASB, such as the disclosures for contingencies, effects of the business combinations, goodwill, and contract disclosures.

### **Question 19**

We do not have any preference in the formatting changes that have been made.

We appreciate the opportunity to comment on the ED and hope the response contained in this letter will be helpful during the Board's deliberation of this issue.

Sincerely,

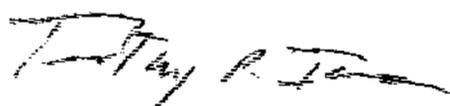
**David Danic**



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**Timothy Iams**



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