Case 18-1
Coffee Co.

Coffee Co. (the “Company”) is a global distributor of organic coffee beans and teas that is registered with the SEC in the United States. The Company’s operations are primarily located in the United States, Canada, and South America. In March 20X8, Coffee Co., looking to refocus efforts to only produce coffee products, entered into an agreement (the “Agreement”) with Nature’s Beverage, a food distributor in the United States looking to expand its international footprint (the “Transaction”). Nature’s Beverage is registered with the SEC in the United States.

Pursuant to the Agreement, Coffee Co. provided a sublicense to Nature’s Beverage for the distribution rights of Coffee Co.’s South American local tea brand, Herbal T, whereby Nature’s Beverage will distribute Herbal T in South America. Under the Agreement, Coffee Co. transferred the existing customer contracts in South America to Nature’s Beverage and an at-market supply contract with the producer of Herbal T. Coffee Co. retained all of its employees and distribution capabilities.

The Transaction closed on March 1, 20X8 (the “Closing”).

Additional Facts:

- Nature’s Beverage incurred certain costs to acquire the sublicense of the distribution rights and a license to use the Herbal T brand. The costs included legal, accounting, and other professional or consulting fees totaling $50,000.

- Nature’s Beverage agreed to transfer to Coffee Co. $3 million for the sublicense of the distribution rights of Herbal T.

- Assume both companies have adopted FASB Accounting Standards Update No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business.

Required:

1. Does the acquisition of the sublicense by Nature’s Beverage to distribute Herbal T meet the definition of a business?

2. How should Nature’s Beverage account for the acquisition, including the treatment of the transaction costs? (Note that the response will be dependent on the response to Question 1.)