Goodwill-To Amortize or Not to Amortize

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OVERVIEW

In January 2014 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-02, Intangibles – Goodwill and Other (Topic 350), Accounting for Goodwill ("ASU 2014-02"). This update permits private companies with the option to amortize goodwill acquired in a business combination over a maximum period of 10 years for financial statement purposes. Goodwill, similar to certain other kinds of intangible assets, is generally amortized for Federal tax purposes over 15 years.

CURRENT RULES

The current rules for goodwill, Accounting Standards Codification Topic 350, Intangibles, Goodwill and Other, (ASC 350) require that goodwill and other intangible assets acquired in a business combination are not amortized, but instead tested for impairment at least annually. The determination is made at the reporting unit level and the impairment test consists of two steps, both of which can often times be complex, time intensive and costly for companies to perform.

A NEW OPTION FOR PRIVATE COMPANIES

ASU 2014-02 provides private companies with the election to amortize goodwill on a straight-line basis over a period of 10 years, or shorter if the Company can demonstrate that another useful life is more appropriate.

ASU 2014-02 also states that the impairment of goodwill may be assessed at either the entity level or the reporting until level. Another benefit of the new guidance is that goodwill impairment is only assessed when a triggering event occurs that may reduce the fair value below its carrying value. Private companies continue to have the option to first assess qualitative factors to determine whether a quantitative impairment test is necessary. If a quantitative analysis is needed, the impairment loss would be equal to the excess of carrying value over fair value. The impairment test under ASU 2014-02 is significantly easier and cost effective for companies to perform because it does not require companies to estimate the implied fair value of goodwill, which is in essence a hypothetical purchase price allocation.

WHO CAN ADOPT AND WHEN?

ASU 2014-02 is an accounting policy decision election and is completely optional for private companies. Public companies may not elect this private company alternative. This policy election applies to all existing goodwill and future goodwill and is applicable for fiscal years beginning after **December 15, 2014, with**

early adoption permitted. Companies that may potentially go public in the future may wish not to elect this alternative as additional time and costs may be incurred in the future to unwind the accounting and perform the annual impairment tests required during those respective periods.

INFORM USERS OF FINANCIAL STATEMENTS

Companies should ensure that all financial statement users, including shareholders, financial institutions, suppliers, customers and tax preparers, are aware of and will accept the changes to the financial statements if this goodwill policy election is made. Potential effects include increased amortization expense recorded in the financial statements, which could affect certain financial debt covenants.

OTHER PROJECTS BY THE PRIVATE COMPANY COUNCIL

The Private Company Council ("PCC") was formed by the FASB to provide accommodations for private companies in certain areas where accounting principles generally accepted in the United States of America have become complex and costly for private companies. In December 2014, the FASB issued Accounting Standards Update No. 2014-18, Business Combinations (Topic 805): Accounting for Intangible Assets in a Business Combination, under which private companies will be able to elect not to record customer-related intangible assets and non-compete agreements that were acquired in a business combination separately from goodwill. Other accommodations made by the PCC and FASB during the past year include alternatives for private companies with respect to the accounting for plain-vanilla interest rate swaps and variable interest entities with related party lessors.

To learn more about the amortization of goodwill and other audit issues, contact Michael Cole at 562.216.1806 or michael.cole@hcvt.com

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