FINANCIAL ACCOUNTING SERIES

ACCOUNTING STANDARDS UPDATE

No. 2014-02
January 2014

Intangibles—Goodwill and Other (Topic 350)

Accounting for Goodwill

a consensus of the Private Company Council

An Amendment of the *FASB Accounting Standards Codification®*

Financial Accounting Standards Board

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FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published quarterly by the Financial Accounting Foundation. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is $242 per year. POSTMASTER: Send address changes to Financial Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 391**

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

The Private Company Council (PCC) added this issue to its agenda in connection with a separate but related issue addressing identifiable intangible assets acquired in a business combination. Because goodwill is a residual asset calculated after recognizing other (tangible and intangible) assets and liabilities acquired in a business combination, any modifications to the initial recognition and measurement guidance for identifiable intangible assets would correspondingly change the goodwill amount recognized in the business combination. Accordingly, the PCC decided that it should take such modifications into consideration in determining how private companies should account for goodwill after a business combination.

During its research and outreach efforts on this issue, the PCC obtained feedback from private company stakeholders that the benefits of the current accounting for goodwill after initial recognition do not justify the related costs. Feedback from users of private company financial statements indicated that the goodwill impairment test performed today provides limited decision-useful information because most users of private company financial statements generally disregard goodwill and goodwill impairment losses in their analysis of a private company's financial condition and operating performance. The PCC also received input from preparers and auditors of private company financial statements indicating concerns about the cost and complexity involved in performing the current goodwill impairment test. Private company stakeholders acknowledged that the Board's recent introduction of the optional qualitative assessment has provided some cost reduction in testing goodwill for impairment, but many of those stakeholders stated that the level of cost reduction has not been significant.

The PCC decided that the concerns expressed about the cost and complexity encountered with applying the current goodwill accounting guidance and the limited relevance to users indicated that a change to the accounting for goodwill was warranted, regardless of the outcome of the related issue on identifiable intangible assets. The Private Company Decision-Making Framework focuses on user-relevance and cost-benefit considerations for private companies as potential justification for alternatives such as the one contained in this Update.

Who Is Affected by the Amendments in This Update?

The amendments in this Update apply to all entities except for public business entities and not-for-profit entities as defined in the Master Glossary of the Accounting Standards Codification and employee benefit plans within the scope of Topics 960 through 965 on plan accounting. An entity within the scope of the amendments that elects to apply the accounting alternative in this Update is subject to all of the related subsequent measurement, derecognition, other presentation matters, and disclosure requirements within the accounting alternative. The accounting alternative applies to goodwill existing at the beginning of the annual period in which it is elected and to new goodwill recognized after the beginning of the annual period of adoption. The Board also recently added a project to its agenda on the subsequent accounting for goodwill for public business entities and not-for-profit entities. The Board could decide that any amendments developed for those entities also should apply to entities within the scope of this Update. Thus, it is possible that entities electing this alternative could be subject to future changes to the subsequent accounting for goodwill. The Board will work with the PCC to evaluate the effect of any changes it makes to the subsequent accounting for goodwill on private companies.

What Are the Main Provisions?

The amendments in this Update allow an accounting alternative for the subsequent measurement of goodwill. An entity within the scope of the amendments that elects the accounting alternative in this Update should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. An entity that elects the accounting alternative is further required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. When a triggering event occurs, an entity has the option to first assess qualitative factors to determine whether the quantitative impairment test is necessary. If that qualitative assessment indicates that it is more likely than not that goodwill is impaired, the entity must perform the quantitative test to compare the entity's fair value with its carrying amount, including goodwill (or the fair value of the reporting unit with the carrying amount, including goodwill, of the reporting unit). If the qualitative assessment indicates that it is not more likely than not that goodwill is impaired, further testing is unnecessary.

The goodwill impairment loss, if any, represents the excess of the carrying amount of the entity over its fair value (or the excess of the carrying amount of the reporting unit over the fair value of the reporting unit). The goodwill impairment loss cannot exceed the entity's (or the reporting unit's) carrying amount of goodwill. The disclosures required under this alternative are similar to existing U.S. generally accepted accounting principles (GAAP). However, an entity that elects the accounting alternative is not required to present changes in goodwill in a tabular reconciliation.

How Do the Main Provisions Differ from Current U.S. Generally Accepted Accounting Principles (GAAP) and Why Are They an Improvement?

Current U.S. GAAP requires that goodwill of a reporting unit be tested for impairment at least annually or more frequently if certain conditions exist. An entity can choose to either perform a qualitative assessment to determine whether it is more likely than not that a reporting unit's fair value is less than its carrying amount, or proceed directly to step one of the impairment test, which is to compare the carrying amount of the reporting unit with its fair value. If its carrying amount exceeds its fair value, the entity must determine the extent of goodwill impairment, if any. In calculating the amount of the impairment, an entity must compare the implied fair value of the reporting unit's goodwill with its carrying amount. That necessitates performing a hypothetical application of the acquisition method to determine the implied fair value of goodwill after measuring the reporting unit's identifiable assets and liabilities in accordance with Topic 805, Business Combinations.

Under the amendments in this Update, an entity that elects the accounting alternative within U.S. GAAP should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. An entity that elects this accounting alternative is required to make an accounting policy decision to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill must be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount. The PCC further simplified goodwill impairment by eliminating step two of the current impairment test, which requires the hypothetical application of the acquisition method to calculate the goodwill impairment amount. The goodwill impairment amount, if any, represents the excess of the entity's (or the reporting unit's) carrying amount over its fair value (limited to the carrying amount of goodwill of the entity [or reporting unit]).

The Private Company Decision-Making Framework guides the Board and the PCC in assessing whether the recognition or measurement guidance being evaluated provides relevant information to users of private company financial statements at a reasonable cost. The PCC received input indicating that most users of private company financial statements disregard goodwill and goodwill impairment losses in their analysis of a private company's financial condition and operating performance. Accordingly, the PCC concluded that the amendments in this Update will not result in a loss of relevant information for users of private company financial statements. Input received from stakeholders indicated that given this lack of relevance for users of private company financial statements, the cost and complexity involved with applying the current guidance to subsequently account for goodwill were not justified. The Board and the PCC recognize that the resulting amortization may result in information that is not viewed as relevant and may result in users adjusting reported results to remove its effects. However, the amortization method and the relief from the requirement to test goodwill for impairment at least annually are expected to result in significant cost savings for many private companies that carry goodwill on their balance sheets, because amortization will reduce the likelihood of impairments and because private companies generally will test goodwill for impairment less frequently. Testing goodwill for impairment at the entity level may further reduce the cost and complexity involved with applying goodwill accounting guidance for those entities that elect to do so (rather than testing at the reporting unit level). Moreover, even if goodwill is impaired, determining the amount of the impairment under the accounting alternative will not involve the hypothetical application of the acquisition method, which can be costly and complicated. Instead, the amount of the impairment equals the amount by which the carrying amount of the entity (or the reporting unit) exceeds its fair value.

In summary, the PCC concluded that the accounting alternative for goodwill is responsive to the needs of private companies and their stakeholders. The PCC concluded that the accounting alternative for goodwill will not result in a loss of decision-useful information to users of private company financial statements but will reduce the cost and complexity involved with applying the current goodwill impairment test. Therefore, the PCC further concluded that the amendments meet the overall objective of the Private Company Decision-Making Framework for addressing the needs of private company stakeholders.

When Will the Amendments Be Effective?

The accounting alternative, if elected, should be applied prospectively to goodwill existing as of the beginning of the period of adoption and new goodwill recognized in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Early application is permitted, including application to any period for which the entity's annual or interim financial statements have not yet been made available for issuance.

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–14. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

Amendments to Master Glossary

2. Add the Master Glossary term *Private Company* with a link to transition paragraph 350-20-65-2, as follows:

<u>**Private Company**</u>

<u>An entity other than a **public business entity**, a **not-for-profit entity**, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.</u>

3. Add the Master Glossary term *Public Business Entity* to Subtopic 350-20 as follows:

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a **not-for-profit** entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).
b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.
c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes

of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.
e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Amendments to Subtopic 350-20

4. Add paragraphs 350-20-05-4 through 05-6 and the new Subsection title, with a link to transition paragraph 350-20-65-2, as follows:

Intangibles—Goodwill and Other—Goodwill

Overview and Background

General

350-20-05-1 This Subtopic addresses financial accounting and reporting for **goodwill** subsequent to its acquisition and for the cost of internally developing goodwill.

350-20-05-2 Subtopic 805-30 provides guidance on recognition and initial measurement of goodwill acquired in a business combination. Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an **acquisition by a not-for-profit entity**.

350-20-05-3 While goodwill is an **intangible asset**, the term intangible asset is used in this Subtopic to refer to an intangible asset other than goodwill.

<u>**350-20-05-4** The guidance in this Subtopic is presented in the following two Subsections:</u>

<u>a. General</u>
<u>b. Accounting Alternative.</u>

Accounting Alternative

350-20-05-5 The Accounting Alternative Subsections of this Subtopic provide guidance for an entity within the scope of paragraph 350-20-15-4 that elects the accounting alternative for goodwill.

350-20-05-6 An entity should continue to follow the applicable requirements in Topic 350 for other accounting and reporting matters related to goodwill that are not addressed in the Accounting Alternative Subsections of this Subtopic.

5. Add paragraphs 350-20-15-4 through 15-5 and the new Subsection title, with a link to transition paragraph 350-20-65-2, as follows:

Scope and Scope Exceptions

Accounting Alternative

350-20-15-4 A **private company** may make an accounting policy election to apply the accounting alternative in this Subtopic. The guidance in the Accounting Alternative Subsections of this Subtopic applies to the following transactions or activities:

a. **Goodwill** that an entity recognizes in a business combination in accordance with Subtopic 805-30 after it has been initially recognized and measured
b. Amounts recognized as goodwill in applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures, and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852 on reorganizations.

350-20-15-5 An entity within the scope of the preceding paragraph that elects the accounting alternative shall apply all of the related subsequent measurement, derecognition, other presentation matters, and disclosure requirements upon election. The accounting alternative, once elected, shall be applied to existing goodwill and to all additions to goodwill recognized in future transactions within the scope of this accounting alternative.

6. Supersede paragraph 350-20-35-60 and its related heading and add paragraphs 350-20-35-62 through 35-82 and the new Subsection title and related headings, with a link to transition paragraph 350-20-65-2, as follows:

Subsequent Measurement

General

~~**> Impairment Testing for Nonpublic Entities**~~

350-20-35-60 Paragraph superseded by Accounting Standards Update 2014-02.~~As with public entities, the reporting unit level for many nonpublic entities may be the same as the entity level. Thus, nonpublic entities would not be precluded from testing for impairment at the entity level—if in fact that level meets the definition of a reporting unit.~~

Accounting Alternative

350-20-35-62 The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for the subsequent measurement of goodwill.

> Amortization of Goodwill

350-20-35-63 Goodwill relating to each **business combination** or reorganization event resulting in fresh-start reporting (amortizable unit of goodwill) shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

350-20-35-64 An entity may revise the remaining useful life of goodwill upon the occurrence of events and changes in circumstances that warrant a revision to the remaining period of amortization. However, the cumulative amortization period for any amortizable unit of goodwill cannot exceed 10 years. If the estimate of the remaining useful life of goodwill is revised, the remaining carrying amount of goodwill shall be amortized prospectively on a straight-line basis over that revised remaining useful life.

> Recognition and Measurement of a Goodwill Impairment Loss

350-20-35-65 Upon adoption of this accounting alternative, an entity shall make an accounting policy election to test goodwill for impairment at the entity level or the **reporting unit** level. An entity that elects to perform its impairment tests at the reporting unit level shall refer to paragraphs 350-20-35-33 through 35-38 and paragraphs 350-20-55-1 through 55-9 to determine the reporting units of an entity.

> > When to Test Goodwill for Impairment

350-20-35-66 Goodwill of an entity (or a reporting unit) shall be tested for impairment if an event occurs or circumstances change that indicate that the fair value of the entity (or the reporting unit) may be below its carrying amount (a triggering event). Paragraph 350-20-35-3C(a) through (g) includes examples of those events or circumstances. Those examples are not all-inclusive, and an entity shall consider other relevant events and circumstances that affect the fair value or carrying amount of the entity (or of a reporting unit) in determining whether to perform the goodwill impairment test. If an entity determines that there are no triggering events, then further testing is unnecessary.

> > The Goodwill Impairment Test

350-20-35-67 Upon the occurrence of a triggering event, an entity may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the entity (or the reporting unit) is less than its carrying amount, including goodwill. Paragraph 350-20-35-3C(a) through (g) includes examples of those qualitative factors.

350-20-35-68 Because the examples included in paragraph 350-20-35-3C(a) through (g) are not all-inclusive, an entity shall consider other relevant events and circumstances that affect the fair value or carrying amount of the entity (or of the reporting unit) in determining whether to perform the quantitative goodwill impairment test. An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the comparison of its fair value with its carrying amount (or of the reporting unit's fair value with the reporting unit's carrying amount). An entity should place more weight on the events and circumstances that most affect its fair value or the carrying amount of its net assets (or the reporting unit's fair value or the carrying amount of the reporting unit's net assets). An entity also should consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that its fair value is less than its carrying amount (or the fair value of the reporting unit is less than the carrying amount of the reporting unit). If an entity has a recent fair value calculation (or recent fair value calculation for the reporting unit), it also should include that calculation as a factor in its consideration of the difference between the fair value and the carrying amount in reaching its conclusion about whether to perform the quantitative goodwill impairment test.

350-20-35-69 An entity shall evaluate, on the basis of the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount. None of the individual examples of events and circumstances included in paragraph 350-20-35-3C(a) through (g) are intended to represent standalone events or circumstances that necessarily require an entity to perform the quantitative goodwill impairment test. Also, the existence of positive and mitigating events and circumstances is not intended to represent a rebuttable presumption that an entity should not perform the quantitative goodwill impairment test.

350-20-35-70 An entity has an unconditional option to bypass the qualitative assessment described in paragraphs 350-20-35-67 through 35-69 and proceed directly to a quantitative calculation by comparing the entity's (or the reporting unit's) fair value with its carrying amount (see paragraphs 350-20-35-72 through 35-78). An entity may resume performing the qualitative assessment upon the occurrence of any subsequent triggering events.

350-20-35-71 If, after assessing the totality of events or circumstances such as those described in paragraph 350-20-35-3C(a) through (g), an entity determines that it is not more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount, further testing is unnecessary.

350-20-35-72 If, after assessing the totality of events or circumstances such as those described in paragraph 350-20-35-3C(a) through (g), an entity determines that it is more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount or if the entity elected to bypass the qualitative assessment in paragraphs 350-20-35-67 through 35-69, the entity shall determine the fair value of the entity (or the reporting unit) and compare the fair value of the entity (or the reporting unit) with its carrying amount, including goodwill. A goodwill impairment loss shall be recognized if the carrying amount of the entity (or the reporting unit) exceeds its fair value.

350-20-35-73 A goodwill impairment loss, if any, shall be measured as the amount by which the carrying amount of an entity (or a reporting unit) including goodwill exceeds its fair value. A goodwill impairment loss shall not exceed the entity's (or the reporting unit's) carrying amount of goodwill.

350-20-35-74 The guidance in paragraphs 350-20-35-22 through 35-27 shall be considered in determining the fair value of the entity (or the reporting unit).

350-20-35-75 The guidance in paragraphs 350-20-35-39 through 35-44 shall be considered in assigning acquired assets (including goodwill) and assumed liabilities to the reporting unit when determining the carrying amount of a reporting unit.

350-20-35-76 For an entity subject to the requirements of Topic 740 on income taxes, when determining the carrying amount of an entity (or a reporting unit), deferred income taxes shall be included in the carrying amount of an entity (or the reporting unit), regardless of whether the fair value of the entity (or the reporting unit) will be determined assuming it would be bought or sold in a taxable or nontaxable transaction.

350-20-35-77 The goodwill impairment loss, if any, shall be allocated to individual amortizable units of goodwill of the entity (or the reporting unit) on a pro rata basis using their relative carrying amounts or using another reasonable and rational basis.

350-20-35-78 After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis, which shall be amortized over the remaining useful life of goodwill. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

> > Interaction of the Impairment Tests for Goodwill and Other Assets (or Asset Groups)

350-20-35-79 If goodwill and another asset (or asset group) of the entity (or the reporting unit) are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. For example, if a significant asset group is to be tested for impairment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 on property, plant, and equipment (thus potentially requiring a goodwill impairment test), the impairment test for the significant asset group would be performed before the goodwill impairment test. If the asset group is impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

350-20-35-80 The requirement in the preceding paragraph applies to all assets that are tested for impairment, not just those included in the scope of the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10.

> Equity Method Investments

350-20-35-81 The portion of the difference between the cost of an investment and the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill in accordance with paragraph 323-10-35-13 (equity method goodwill) shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

350-20-35-82 However, equity method goodwill shall not be reviewed for impairment in accordance with this Subtopic. Equity method investments shall continue to be reviewed for impairment in accordance with paragraph 323-10-35-32.

7. Add paragraphs 350-20-40-8 through 40-9 and the new Subsection title and related heading, with a link to transition paragraph 350-20-65-2, as follows:

Derecognition

Accounting Alternative

350-20-40-8 The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for the subsequent measurement of goodwill.

> Disposal of a Portion of an Entity (or a Reporting Unit)

350-20-40-9 When a portion of an entity (or a **reporting unit**) that constitutes a business is to be disposed of, goodwill associated with that business shall be included in the carrying amount of the business in determining the gain or loss on disposal. An entity shall use a reasonable and rational approach to determine the amount of goodwill associated with the business to be disposed of.

8. Add paragraphs 350-20-45-4 through 45-7 and the new Subsection title, with a link to transition paragraph 350-20-65-2, as follows:

Other Presentation Matters

Accounting Alternative

350-20-45-4 The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for the subsequent measurement of goodwill.

350-20-45-5 The aggregate amount of goodwill net of accumulated amortization and impairment shall be presented as a separate line item in the statement of financial position.

350-20-45-6 The amortization and aggregate amount of impairment of goodwill shall be presented in income statement line items within continuing operations (or similar caption) unless the amortization or a goodwill impairment loss is associated with a discontinued operation.

350-20-45-7 The amortization and impairment of goodwill associated with a discontinued operation shall be included (on a net-of-tax basis) within the results of discontinued operations.

9. Add paragraphs 350-20-50-4 through 50-7 and the new Subsection title and related headings, with a link to transition paragraph 350-20-65-2, as follows:

Disclosure

Accounting Alternative

> Disclosures about Additions to Goodwill

350-20-50-4 The following information shall be disclosed in the notes to financial statements for any additions to **goodwill** in each period for which a statement of financial position is presented:

a. The amount assigned to goodwill in total and by major business combination or by reorganization event resulting in fresh-start reporting
b. The weighted-average amortization period in total and the amortization period by major business combination or by reorganization event resulting in fresh-start reporting.

> Information for Each Period for Which a Statement of Financial Position Is Presented

350-20-50-5 The following information shall be disclosed in the financial statements or the notes to the financial statements for each period for which a statement of financial position is presented:

a. The gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss
b. The aggregate amortization expense for the period
c. Goodwill included in a disposal group classified as held for sale in accordance with paragraph 360-10-45-9 and goodwill derecognized during the period without having previously been reported in a disposal group classified as held for sale.

> Goodwill Impairment Loss

350-20-50-6 For each goodwill impairment loss recognized, the following information shall be disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:

a. A description of the facts and circumstances leading to the impairment
b. The amount of the impairment loss and the method of determining the fair value of the entity or the reporting unit (whether based on prices of comparable businesses, a present value or other valuation technique, or a combination of those methods)
c. The caption in the income statement in which the impairment loss is included
d. The method of allocating the impairment loss to the individual amortizable units of goodwill.

350-20-50-7 The quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) are not required for fair value measurements related to the financial accounting and reporting for goodwill after its initial recognition in a business combination.

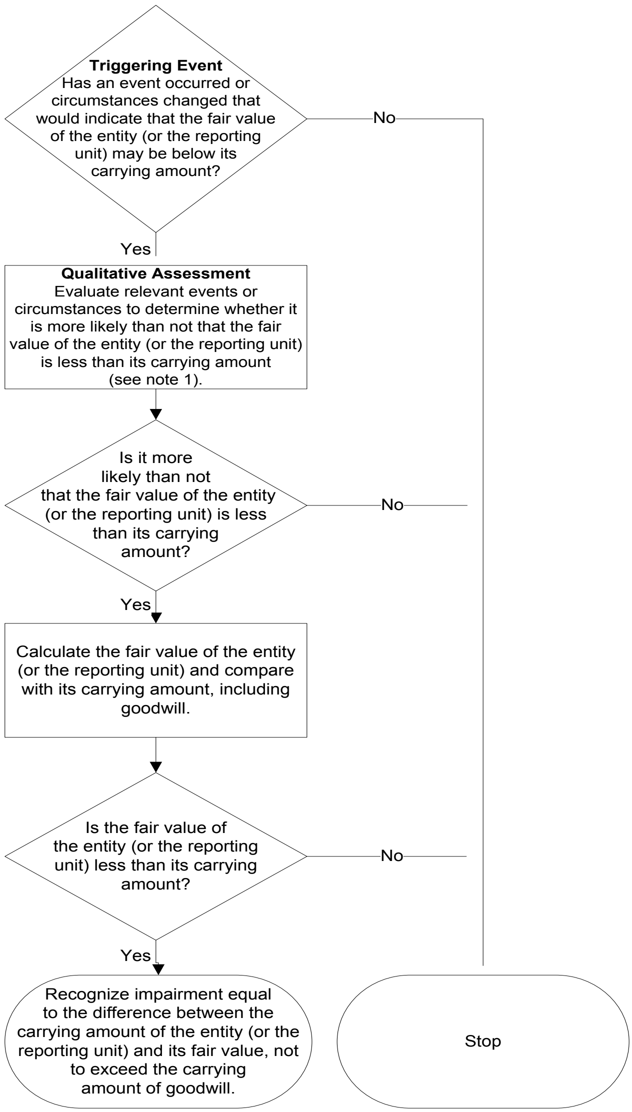
10. Add paragraph 350-20-55-26 and the new Subsection title and related heading, with a link to transition paragraph 350-20-65-2, as follows:

Implementation Guidance and Illustrations

Accounting Alternative

> Implementation Guidance

350-20-55-26 The following flowchart provides an overview of the accounting alternative for entities within the scope of paragraph 350-20-15-4. **[For ease of readability, the flowchart is not underlined as new text.]**



Note 1:

An entity has the unconditional option to skip the qualitative assessment and proceed directly to calculating the fair value of the entity (or the reporting unit) and comparing that value with its carrying amount, including goodwill.

11. Add paragraph 350-20-65-2 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*

350-20-65-2 The following represents the transition and effective date information related to Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill:*

a. The pending content that links to this paragraph shall be effective prospectively for new goodwill recognized in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015.
b. Goodwill existing as of the beginning of the period of adoption shall be amortized prospectively on a straight-line basis over 10 years, or less than 10 years if an entity demonstrates that another useful life is more appropriate.
c. Early application is permitted for any annual or interim period for which an entity's financial statements have not yet been made available for issuance.
d. Upon adoption of the accounting alternative, an entity shall make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level.

Amendments to Subtopic 323-10

12. Amend paragraph 323-10-35-13 with a link to transition paragraph 350-20-65-2, as follows:

Investments—Equity Method and Joint Ventures—Overall

Subsequent Measurement

> > Basis Difference

323-10-35-13 A difference between the cost of an investment and the amount of underlying equity in net assets of an investee shall be accounted for as if the investee were a consolidated subsidiary. Paragraph 350-20-35-58 requires that the portion of that difference that is recognized as goodwill not be amortized. However, if a **private company** elects the accounting alternative in Subtopic

350-20 on goodwill, the portion of that difference that is recognized as goodwill shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. Paragraph 350-20-35-59 explains that equity method goodwill shall not be reviewed for impairment in accordance with paragraph 350-20-35-58. However, equity method investments shall continue to be reviewed for impairment in accordance with paragraph 323-10-35-32.

13. Amend paragraph 350-20-00-1, by adding the following items to the table, as follows:

350-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
Not-for-Profit Entity	Added	2014-02	01/16/2014
Private Company	Added	2014-02	01/16/2014
Public Business Entity	Added	2014-02	01/16/2014
350-20-05-4 through 05-6	Added	2014-02	01/16/2014
350-20-15-4	Added	2014-02	01/16/2014
350-20-15-5	Added	2014-02	01/16/2014
350-20-35-60	Superseded	2014-02	01/16/2014
350-20-35-62 through 35-82	Added	2014-02	01/16/2014
350-20-40-8	Added	2014-02	01/16/2014
350-20-40-9	Added	2014-02	01/16/2014
350-20-45-4 through 45-7	Added	2014-02	01/16/2014
350-20-50-4 through 50-7	Added	2014-02	01/16/2014
350-20-55-26	Added	2014-02	01/16/2014
350-20-65-2	Added	2014-02	01/16/2014

14. Amend paragraph 323-10-00-1, by adding the following items to the table, as follows:

323-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph Number	**Action**	**Accounting Standards Update**	**Date**
Not-for-Profit Entity	Added	2014-02	01/16/2014
Private Company	Added	2014-02	01/16/2014
Public Business Entity	Added	2014-02	01/16/2014
323-10-35-13	Amended	2014-02	01/16/2014

The amendments in this Update were endorsed by the affirmative vote of six members of the Financial Accounting Standards Board. Mr. Smith dissented.

Mr. Smith objects to the issuance of this Accounting Standards Update because he does not believe it is appropriate to create an accounting alternative for private companies without also exploring whether the alternative should be made available to public business entities or whether an amendment should be made to the existing accounting for goodwill for all entities. Mr. Smith acknowledges that the fundamental reason why this issue was raised relates to the costs that are incurred in evaluating goodwill for impairment. Mr. Smith adamantly believes this cost issue is the same, regardless of whether an entity is a public or private entity. Therefore, Mr. Smith does not understand why the issue is being considered at this time for private entities only. Mr. Smith would like the Board to address the issue for both private entities and public business entities at the same time, rather than risk having an accounting alternative in place for private companies that may ultimately not be an alternative suitable for public business entities. Furthermore, Mr. Smith does not believe requiring amortization of goodwill addresses the cost (of impairment) issue directly. While amortization may reduce the likelihood of goodwill being impaired, there still exists an ongoing requirement to evaluate goodwill for impairment.

Mr. Smith believes the primary information that users obtain from the existing accounting model for goodwill is (1) the amount paid by an entity above the fair value of the identifiable tangible and intangible net assets that exist and (2) confirmatory information that the amount paid has been impaired. Users frequently indicate that the recording of an impairment typically lags other indicators that users are aware of. Preparers and auditors have informed the FASB that the costs of ongoing goodwill impairment assessment are considerable; Mr. Smith believes that the information provided (as discussed above) is somewhat limited. Consequently, Mr. Smith believes the financial reporting system as a whole may be allocating considerably more resources to all aspects of accounting for goodwill than he believes is justified by the limited benefits of that accounting. For this reason, Mr. Smith believes the Board would be justified in entertaining a reconsideration of its existing accounting model for goodwill, despite the fact that the model has existed for a relatively short period of time.

Members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the PCC's considerations in reaching the conclusions in this Update. It includes the Board's basis for endorsing the PCC's conclusions when needed to supplement the PCC's considerations. It also includes reasons for accepting certain approaches and rejecting others. Individual PCC members and Board members gave greater weight to some factors than to others.

BC2. Based on input received through outreach with users, preparers, and auditors of private company financial statements and based on feedback received in various other forums, the PCC decided to add to its agenda a project that would explore potential alternatives to the current accounting for identifiable intangible assets acquired in a business combination. As a result of the consequential effect that any change in the recognition of intangible assets would have on goodwill, the PCC also decided to add to its agenda a separate but related project on accounting for goodwill after a business combination. On July 1, 2013, the Board issued two Exposure Drafts on decisions reached by the PCC to provide an elective accounting alternative for private companies to account for identifiable intangible assets acquired in a business combination and to account for goodwill after a business combination. The Board received 51 comment letters on the Exposure Draft on the subsequent accounting for goodwill. Although many respondents supported the proposal, the PCC did make certain changes to the proposed accounting alternative for goodwill in response to the comment letters. Significant changes and the reasons for those changes are discussed throughout this basis for conclusions. The accounting alternative for identifiable intangible assets (PCC Issue No. 13-01A, "Accounting for Identifiable Assets in a Business Combination") has not yet been finalized.

BC3. The amendments in this Update provide guidance on an accounting alternative for the subsequent measurement of goodwill. An entity within the scope of the amendments that elects the accounting alternative within U.S. GAAP should amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. The PCC also decided that private companies should make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. Goodwill should be tested for impairment when a triggering event occurs that indicates that the fair value of an entity (or a reporting unit) may be below its carrying amount including goodwill. An entity should continue to follow the applicable requirements in Topic 350 for other accounting and reporting matters related to goodwill that are not specifically addressed in the amendments.

Scope

BC4. The PCC decided the scope of this Update should be consistent with the scope of the Private Company Decision-Making Framework. Therefore, the amendments apply to all entities except public business entities, not-for-profit entities, or employee benefit plans. The PCC acknowledges that users of financial statements, such as regulators or lenders, may request that an entity not apply the accounting alternative even if the entity is otherwise eligible. The PCC and the Board also acknowledge that if an entity that elects this accounting alternative is subsequently subject to public business entity reporting requirements, it may be required to recast prior periods as if the accounting alternative had not been elected.

BC5. The Board also recently added a project to its agenda on the subsequent accounting for goodwill for public business entities and not-for-profits because the issues raised by private companies about the subsequent accounting for goodwill also pertain to such entities. This project could result in a change in the subsequent accounting for goodwill for all entities, including those within the scope of this Update. Therefore, an entity that elects this alternative could potentially be subject to a future change to the subsequent accounting for goodwill as a result of the outcome of that project. The Board acknowledges that it would have been better to address this issue for all entities simultaneously and avoid a potential second change for private companies that elect this alternative. However, to do so would have delayed any relief for private companies while the Board completed a broader project. The Board will work with the PCC to evaluate the effect of any changes it makes to the subsequent accounting for goodwill on private companies. The alternative is not applicable to employee benefit plans because those entities do not recognize goodwill.

BC6. To achieve comparability among entities that elect to apply the accounting alternative, the PCC decided that the subsequent measurement, derecognition, other presentation matters, and disclosure requirements should be applied together and not individually. The PCC also decided that the accounting alternative, if elected, should apply to all existing goodwill and all new goodwill recognized after the effective date.

Background Information

BC7. U.S. GAAP requires that goodwill of a reporting unit be tested for impairment at least annually or more frequently if certain conditions exist. An entity has the option first to perform a qualitative assessment to determine whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount. If the qualitative assessment indicates that it is not more likely than not that the reporting unit's fair value is less than its carrying value, further testing is unnecessary. If the qualitative assessment indicates that it is more likely than not that goodwill is impaired, the entity must proceed to step one and compare the carrying amount, including goodwill, of the reporting unit with its fair value. If the carrying amount, including goodwill, exceeds fair value, an entity must determine the extent of the goodwill impairment, if any. In calculating the amount of impairment, an entity must compare the implied fair value of the reporting unit's goodwill with its carrying amount. That necessitates performing a hypothetical application of the acquisition method to determine the implied fair value of goodwill after measuring the reporting unit's identifiable assets and liabilities in accordance with Topic 805.

BC8. The PCC added this issue to its agenda in response to feedback from private company stakeholders through various channels including (a) the nonpublic entity roundtables, (b) written submissions to the Blue-Ribbon Panel on Standard Setting for Private Companies and the Financial Accounting Foundation's Plan to Establish the Private Company Standards Improvement Council, and (c) the Private Company Financial Reporting Committee. The feedback indicated that the benefits of the current accounting for goodwill do not justify the related costs. Outreach with users of private company financial statements further indicated that the current goodwill impairment test provides limited decision-useful information because most users of private company financial statements disregard goodwill and goodwill impairment losses in their analysis of a private company's financial condition and operating performance. The PCC also received input through outreach with preparers and auditors indicating concerns over the cost and complexity involved in performing the current goodwill impairment test. Private company stakeholders acknowledged that the Board's recent introduction of the optional qualitative assessment has provided some cost reduction in testing goodwill for impairment, but many of those stakeholders stated that the level of cost reduction has not been significant.

BC9. Many users of private company financial statements indicated that they disregard goodwill impairment charges from their quantitative analysis of a private company's operating performance because they focus on tangible net assets, cash flows, and/or some form of adjusted earnings before income taxes, depreciation, and amortization (EBITDA). Moreover, because the underlying events and conditions leading to goodwill impairment generally manifest themselves long before the impairment is reported in a private company's financial statements, users indicated that they use other, more real-time information (including information obtained through their access to management) to identify the types of events that can lead to an impairment loss. Some users acknowledged that an impairment loss (or lack of an impairment loss) within the first few years of an acquisition can be an indicator of the failure (or success) of an acquisition; however, they noted that the usefulness of goodwill impairment accounting is diminished because most private companies do not issue U.S. GAAP interim financial statements, and they generally issue their year-end financial statements later than public business entities. Users further stated that the amount of impairment is less relevant than the existence of impairment because the calculation of the impairment amount is not well understood.

BC10. Preparers and auditors of private company financial statements indicated that the costs and complexities associated with goodwill impairment are not limited to the requirement to perform an annual impairment test but also apply to other aspects of the relevant guidance. To perform a goodwill impairment test, an entity first determines (and reassesses as needed) its reporting units, a unit of account concept that requires a private company to apply the current U.S. GAAP guidance on operating segments, which private company preparers generally are not familiar with because that guidance is directly applicable to public business entities only. After determining its reporting units, an entity assigns goodwill and individual assets and liabilities to each reporting unit. Allocation of shared assets, allocation of certain common liabilities (for example, debt and pensions), the treatment of intercompany charges, and the accounting for deferred taxes at each reporting unit level can be complex and challenging. Moreover, reporting units and the related allocation of assets and liabilities may have to be adjusted each time there is an internal reorganization, a new acquisition, or the sale of a part of an entity. After completing the allocation process, an entity assesses goodwill at each reporting unit for impairment at least annually and in interim periods when there is a triggering event.

BC11. In step one of the goodwill impairment test, an entity calculates the fair value of its reporting units, which generally requires involvement by external valuation professionals. The valuation of reporting units generally involves significant judgmental inputs, including detailed cash flow projections and market information, for example, discount rates and market peer comparisons. If fair value is less than the carrying amount of a reporting unit, the entity then performs a hypothetical application of the acquisition method (step two) to calculate the fair value of net assets, including identifiable intangibles, as if the reporting unit was acquired on the impairment test date. Depending on the materiality of the reporting unit(s) involved, the level of effort needed for step two of the impairment test can be as significant as the initial application of the acquisition method.

BC12. On the basis of input from users, preparers, and auditors of private company financial statements, the PCC developed the amendments that introduce an alternative method of accounting for goodwill. While goodwill amortization also will likely be disregarded and thus the alternative method does not provide any greater relevance, the PCC concluded that the alternative method, if elected, will reduce significantly the cost and complexity of preparing financial statements but not result in a loss of decision-useful information to users of private company financial statements. The PCC concluded that impairments of goodwill under the accounting alternative still may provide confirmatory value to users when the fair value of the entity (or the reporting unit) is below its carrying amount.

Subsequent Measurement

BC13. The PCC decided that goodwill should be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. An entity amortizing goodwill over 10 years does not need to justify its selection of a 10-year amortization period.

BC14. Some PCC members acknowledged that an amortization model may not be as conceptually strong as an impairment model, but they noted that users will not be adversely affected by changing to an amortization model because they often disregard goodwill impairment charges in their quantitative analysis of an entity's operating performance. While goodwill amortization expense also often will be disregarded, the PCC determined that the simplified approach reduces cost and complexity of preparing financial statements so that the benefits of the guidance will justify the costs of applying it. The PCC also observed that the amortization-based accounting model for goodwill is consistent with IFRS for small-to-medium-sized entities.

BC15. Some PCC members supported the amortization model because, in their view, goodwill should be expensed to achieve an allocation of its cost to future operations. Those members noted that acquired goodwill is an asset that is consumed and replaced with internally generated goodwill. Therefore, acquired goodwill should be amortized, and the internally generated goodwill that is replacing it should not be recognized as an asset (because goodwill generally cannot be recognized as an asset outside a business combination). One PCC member noted that amortizing goodwill "levels the playing field" among those entities that grow through acquisitions and those that grow organically, because those that grow organically are not able to capitalize the expenses that generate goodwill. Accordingly, those PCC members voted for the amortization model because, in their view, amortization (with impairment tests, if necessary) is a better representation of the underlying economics of goodwill than the current impairment-only model.

BC16. The PCC acknowledged that the useful life of goodwill and the pattern in which it diminishes are difficult to predict, yet amortization depends on such predictions. As a result, the PCC originally proposed that the useful life of goodwill should depend on another asset for which the useful life can be more reliably predicted. The PCC proposed using the primary asset concept that is used today for long-lived asset impairments as the benchmark for amortizing goodwill. However, based on comment letter feedback, the PCC subsequently concluded that the life of the primary asset generally is not reflective of the expected period of cash flows to be generated from the acquisition (for example, if technology with a five-year life was the primary asset but the forecasted cash flows to be received from the acquisition significantly exceeded five years) or it may be difficult to identify one primary asset (for example, if there were multiple assets purchased in a business combination with similar values but different useful lives). Because of those complexities, the PCC concluded that using a primary asset to determine the useful life likely was not a better indicator of the life of goodwill than simply using a designated period. Thus, to reduce complexity, the PCC changed the useful life to 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. That provides an opportunity for a reporting entity to identify a shorter useful life than 10 years, if it chooses to do so, when a shorter useful life is more appropriate based on its own specific facts and circumstances. For example, if an entity entered into a business combination solely for the purpose of obtaining access to the proprietary technology of the acquired entity, it may be appropriate to amortize the goodwill over the life of the proprietary technology.

BC17. The PCC decided that the useful life should be limited to 10 years on the basis that, generally, a significant portion of the assets and liabilities acquired in a business combination involving private companies would be fully used up or satisfied by the 10th year. For example, if a business enterprise calculation assumed a 3 percent growth rate and a 15 percent discount rate, approximately 70 percent of the present value of the cash flows would be generated in the first 10 years. A higher discount rate (which would not be unusual, particularly if significant growth was projected) would increase the percentage of the present value of cash flows expected to be generated in the first 10 years.

BC18. PCC members acknowledged that some stakeholders may not support the selection of an arbitrary period, but the PCC decided that the selection of such a period was the most practical solution for a useful life, since it is very difficult to predict the useful life of goodwill.

BC19. The PCC also considered a longer amortization period, such as a 15-year period. While some stakeholders supported a 15-year period to align with amortization of goodwill for U.S. federal tax purposes (which would reduce the amount of deferred taxes recognized by a taxable entity electing this alternative), the PCC concluded that a period of 15 years is no less arbitrary than a period of 10 years and that a longer amortization period would increase the risk of impairment.

BC20. The PCC concluded that all goodwill should be amortized on a straight-line basis because of the inherent difficulties in predicting its actual pattern of providing benefits to the entity.

BC21. The PCC considered but decided against a method in which goodwill would be written off as an immediate charge to earnings or equity on the acquisition date. Some private company stakeholders supported the writeoff approach because, to them, no cost of subsequent accounting is justifiable if users disregard goodwill and the subsequent impairment/amortization charges. The PCC acknowledged the arguments for writing off goodwill but ultimately carried forward the Board's previous decision as articulated in the basis for conclusions of Statement No. 141 (revised 2007), *Business Combinations,* that goodwill meets the criteria for recognition as an asset because it generates future economic benefits and it is controlled by the acquirer. The basis for conclusions of Statement No. 142, *Goodwill and Other Intangible Assets,* also noted that if the residual value upon an acquisition (goodwill) is deemed to have value initially, virtually no event other than a catastrophe could subsequently occur in which it instantaneously becomes worthless. The PCC also had concerns about taking a potentially large charge into earnings or equity such that in some transactions, equity would become negative. Furthermore, such a charge would significantly affect calculations of return on equity. Despite assertions by many users of private company financial statements that goodwill is not a part of their quantitative analysis of an entity's operating performance, the PCC concluded that some users may react negatively to any immediate charge to earnings or equity.

Impairment

BC22. The PCC decided that any entity that elects the accounting alternative should have the option to perform impairment tests at either the entity level or the reporting unit level. Upon adoption of the accounting alternative, an entity should make an accounting policy election as to the level at which goodwill would be tested. The PCC originally proposed that all entities that elect the accounting alternative should perform impairment testing at the entity level, but in response to certain comment letter feedback, the PCC added the option to test impairment at the reporting unit level. The PCC decided that this option provides flexibility to private companies that are more complex and find presenting the results of impairment charges by reporting unit to be more meaningful, while still allowing those private companies to benefit from the other aspects of the accounting alternative.

BC23. Goodwill should be tested when a triggering event occurs that indicates that the fair value of the entity (or the reporting unit) may be below its carrying amount. Upon the occurrence of a triggering event, in testing goodwill for impairment, an entity will continue to have the option first to perform a qualitative assessment to determine whether it is more likely than not that the entity's (or the reporting unit's) fair value is less than its carrying amount, including goodwill, or the entity can bypass the qualitative assessment and proceed directly to comparing the carrying amount, including goodwill, of the entity (or the reporting unit) with its fair value. Under the accounting alternative, an entity should consider the same examples of events and circumstances for the assessment of triggering events as those considered for the qualitative assessment. However, the PCC intends for the nature and extent of those two assessments to be different. The assessment of triggering events should be similar to the current practice of how an entity evaluates goodwill impairment between annual tests.

The triggering event is the event that makes an entity stop and think about impairment. In contrast, the optional qualitative assessment is part of an entity's documented goodwill impairment test requiring the entity to positively assert its conclusion as to whether it is more likely than not that goodwill is impaired based on consideration of all events and circumstances, not just one triggering event.

BC24. The PCC further simplified goodwill impairment by eliminating step two of the current impairment test, which requires the hypothetical application of the acquisition method to calculate the goodwill impairment amount. Under the accounting alternative, the goodwill impairment amount represents the excess of an entity's (or a reporting unit's) carrying amount including goodwill over its fair value. The impairment loss amount would not exceed the carrying amount of the goodwill of the entity (or the reporting unit). The goodwill impairment loss should be allocated to goodwill acquired by the entity (or the reporting unit) and recognized in each business combination or reorganization (amortizable units of goodwill) on a pro rata basis using the relative carrying amounts of goodwill or using another reasonable and rational basis.

BC25. Because goodwill will be amortized, the PCC decided that a goodwill impairment test is necessary only when triggers exist, similar to other long-lived assets that are subject to periodic amortization. The PCC concluded that the amortization method (and the option to test at the entity level, if elected) generally should result in testing goodwill for impairment less frequently than once a year, especially in the later years of the useful life of goodwill.

BC26. Some PCC members acknowledged that a single-step approach may not result in as theoretically accurate an amount of goodwill impairment as the current two-step approach, but it noted that a less precise calculation of impairment does not take away from the usefulness of financial statements. The PCC concluded that eliminating a costly aspect of the current two-step goodwill impairment test, that is, the hypothetical application of the acquisition method to calculate implied goodwill (step two), provides a benefit to private company preparers with minimal reduction in user relevance. The PCC also noted that this approach to impairment testing is similar to the single-step impairment test used for goodwill under IFRS.

BC27. In reaching the decision to allow impairment to be tested at the entity level, the PCC noted that private companies are not subject to segment reporting requirements in Topic 280 on segment reporting and, thus, are not familiar with its application nuances, leaving room for errors in the determination of reporting units. Even after reporting units are determined, an entity's allocation of the assets and liabilities to the reporting units can be challenging and prone to error. The PCC acknowledged that testing at the entity level may result in some information loss about impairments relating to specific acquisitions but that most private company acquisitions already roll up to existing reporting units of an entity and that most private companies have only a few reporting units (and many have only a single reporting unit).

BC28. Because users are more interested in the existence of an impairment loss rather than the precise measurement, the PCC decided that allowing an entity to allocate an impairment loss on a pro rata basis was reasonable and rational. However, in cases in which an entity can identify another reasonable and rational method (for example, if the entity concluded that a specific acquisition drove the impairment), the PCC wanted to provide an opportunity for an entity to use that method to allocate the impairment loss.

Disclosure

BC29. The PCC determined that existing disclosure principles in Topic 350 on goodwill and Topic 805 on business combinations should be used as applicable. The PCC decided that for amortizable goodwill, disclosures in the period of acquisition should be similar to disclosures for other finite-lived intangible assets for which an entity would disclose, for example, the weighted-average useful life of the asset. The PCC did not carry forward the existing requirement in Topic 350 to include a tabular reconciliation of the beginning balance, ending balance, and activity (major additions and subtractions) in the goodwill balance from period to period. That requirement was eliminated based on comment letter feedback and consideration of the Private Company Decision-Making Framework, which indicates that the PCC and the Board generally should consider excluding tabular reconciliations from the disclosure requirements. The PCC concluded that information about changes in goodwill could be important to users (for example, knowing the amount of amortization expense so that it can be added back to net income) but that it is not necessary to include that information in a prescriptive tabular reconciliation. Furthermore, some elements of the tabular reconciliation can be found elsewhere in the notes to the financial statements. For example, the amount of new goodwill is included as a part of the business combination note. When there is a goodwill impairment loss, the disclosure requirements in Topic 350 continue to apply, except for those disclosures related to step two of the test and those related to reporting units (if the option to test at the entity level is elected).

Transition

BC30. The PCC decided that the alternative goodwill accounting guidance for private companies should be applied prospectively for new goodwill recognized in annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. Goodwill existing as of the beginning of the period of adoption should be amortized prospectively on a straight-line basis over 10 years, or less than 10 years if an entity demonstrates that another useful life is more appropriate. The PCC provided the 10-year expedient because of the practical challenges that many private companies may face when determining the remaining useful life of goodwill, which is even more difficult when goodwill has been recognized several years before the adoption date of this alternative method. Also, because of current requirements to track goodwill only at the reporting unit level, an entity that elects the accounting alternative may not readily have access to goodwill for each individual acquisition and the related acquisition dates to determine the remaining amortization period. That is, even if the 10-year expedient was applied based on the original acquisition date rather than as of the beginning of the period of adoption, the PCC noted it may be too burdensome to go back and segregate the individual amortizable units of goodwill.

BC31. Overall, the PCC decided against a retrospective application because the different measurement principles are overly burdensome for preparers to apply retrospectively. Furthermore, because users are expected to often ignore goodwill amortization, the benefits of providing comparable financial statements would not justify the costs of retrospective adoption.

Effect on User Relevance and Cost under the Private Company Decision-Making Framework

BC32. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. The Private Company Decision-Making Framework provides considerations for the PCC and the Board in making user-relevance and cost-benefit evaluations for private companies under the existing conceptual framework. The Private Company Decision-Making Framework is a tool to help the Board and the PCC to identify differential information needs of users of public company financial statements and users of private company financial statements and to identify opportunities to reduce the relatively greater cost and complexity of preparing financial statements for private companies in accordance with U.S. GAAP. The PCC's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC33. The PCC concluded that the accounting alternative in this Update, when elected, will not result in a loss of decision-useful information to the users of private company financial statements but will reduce the cost and complexity associated with performing the current goodwill impairment test. The PCC received input through outreach with private company stakeholders that the current accounting for goodwill impairment provides limited benefits for decision making because users often disregard goodwill and goodwill impairment losses in their analysis of a private company's financial condition and operating performance. The PCC also concluded that impairments of goodwill under the accounting alternative still may provide confirmatory value to users when the fair value of the entity (or the reporting unit) is below its carrying amount.

Accordingly, the amendments will not result in a loss of relevant information for users of private company financial statements.

BC34. In addition, the PCC received input from private company stakeholders through various channels (a) indicating concerns about the cost and complexity to preparers of applying the current two-step goodwill impairment test and (b) questioning whether the benefits of the test to most users of private company financial statements justify the related and recurring costs. The PCC concluded that the amendments will reduce the costs and complexity of accounting for goodwill and, therefore, reduce the cost and complexity of preparing financial statements. The amortization method and the relief from the requirement to test goodwill for impairment at least annually will result in significant cost savings for many private companies that carry goodwill on their balance sheets, because amortization reduces the likelihood of impairments, and companies will be required to test goodwill for impairment when a triggering event occurs. Moreover, even if goodwill is impaired, determining the amount of the impairment under the accounting alternative in this Update does not involve the hypothetical application of the acquisition method, which is costly and complicated. Instead, the amount of the impairment charge will be determined as the amount by which the carrying amount, including goodwill, of the entity (or the reporting unit) exceeds its fair value.

BC35. Private companies with multiple reporting units also could see additional savings if they choose to perform impairment assessments at the entity level, rather than the reporting unit level as required today. Private companies frequently have difficulties in determining their reporting units because the concept of a reporting unit stems from the accounting literature on segment reporting directly applicable only to public business entities. As a result, private companies generally are less familiar with the guidance and practice for determining operating segments.

BC36. The assessment of triggering events may be difficult to apply for some private companies. However, the PCC concluded that this aspect of the alternative model in this Update does not introduce incremental complexity because the triggering event concept already exists under Topic 350 and Topic 360 on property, plant, and equipment.

BC37. The alternative method in this Update may obscure goodwill impairment on a particular acquisition that may have been recognized under current U.S. GAAP. That is, an entity whose overall fair value is greater than its carrying amount may not have to recognize a goodwill impairment loss for an unsuccessful acquisition. There also may be instances in which goodwill impairment is recognized for a successful acquisition. For example, a decrease in value of a struggling organic business could result in a drop in the fair value of the overall entity. If the resulting fair value is less than the company's carrying amount, that shortfall would be recorded as a goodwill impairment loss that is allocated to all individual amortizable units of goodwill on a pro rata basis using their relative carrying amounts or using another reasonable and rational basis. However, an impairment charge may not have been recorded for all amortizable units of goodwill if the goodwill test was performed at a reporting unit level. Because goodwill will be amortized under the alternative accounting method, the likelihood of goodwill impairments presumably decreases over time as the carrying amount of goodwill decreases. The PCC concluded that, overall, those changes result in a cost-justifiable information loss for users of private company financial statements. Existing guidance under U.S. GAAP also is susceptible to these types of issues because, depending on the level at which reporting units are determined, there may be instances in which goodwill impairment losses for unsuccessful acquisitions are obscured. In addition, there could be instances in which a successful acquisition is subsumed into a reporting unit, and the struggling results of the organic business of that reporting unit drive an impairment of goodwill related to the successful acquisition. Because no impairment model is perfect, this approach balances the costs and benefits for the accounting of an asset (goodwill) that has limited user relevance.

BC38. The PCC concluded that the accounting alternative for goodwill after a business combination is responsive to the needs of private companies and their users because it will provide a reduction in the cost and complexity associated with the current goodwill impairment test but will not result in a loss of decision-useful information to the users of private company financial statements. Therefore, the amendments meet the overall objective of the Private Company Decision-Making Framework for addressing the needs of private company stakeholders.