Overview of Decisions Reached on PCC Issue No. 13-01 A, "Accounting for Identifiable Intangible Assets in a Business Combination," and PCC Issue No. 13-01B, "Accounting for Goodwill"

The Private Company Council (PCC) voted to finalize an alternative for the accounting for goodwill for private companies and directed the FASB staff to conduct more research on the accounting for identifiable intangible assets in a business combination for further discussion at a future meeting.

Date of Meeting: September 30 and October 1, 2013

PCC Issue No. 13-01A, "Accounting for Identifiable Intangible Assets in a Business Combination"

The PCC reaffirmed the scope of a proposed alternative within U.S GAAP that would be available upon election to entities that are required to apply the acquisition method under Topic 805, Business Combinations, except for public business entities and not-for-profit entities.

The PCC also directed the staff to perform additional research to develop additional alternatives. For example, an alternative that would permit separating from goodwill only intangible assets that have separable and discrete cash flows.

PCC Issue No. 13-01B, "Accounting for Goodwill"

The PCC voted to finalize an accounting alternative within U.S. GAAP for private companies related to the accounting for goodwill, subject to FASB endorsement. The alternative would be available to entities that recognize goodwill in accordance with Topic 805, except for public business entities and not-for-profit entities.

To an acquiring entity, goodwill represents the residual asset in a business combination after recognizing all identifiable assets and liabilities of an acquired entity. Under current U.S. GAAP, goodwill is not amortized but is subject to impairment testing at least annually. The PCC decided that a private company (that elects the alternative within U.S. GAAP) should amortize goodwill over 10 years or less than 10 years if the entity can demonstrate that another useful life is more appropriate.

The PCC also decided that a private company could make an accounting policy decision to perform its impairment testing at the entity-level or the reporting unit level. Under current U.S. GAAP, impairment testing is always performed at the reporting unit level. A private company would test goodwill for impairment only when a triggering event occurs that may reduce the fair value of an entity (or a reporting unit, if elected) below its carrying amount. In testing goodwill for impairment, a private company would continue to have the option to first assess qualitative factors to determine whether step one of the quantitative impairment test is necessary. If that qualitative test indicates that it is more likely than not that goodwill is impaired, step one of the goodwill impairment test, which requires that the entity (or the reporting unit, if elected) compare its fair value to its carrying amount, would be required.

The PCC further simplified the goodwill impairment test by eliminating step two of the impairment test, which requires the application of a hypothetical purchase price allocation to calculate the goodwill impairment amount. Under the accounting alternative, the goodwill impairment amount would represent the excess of the entity's (or the reporting unit's) carrying amount over its fair value as calculated in step one of the test. Goodwill would not be reduced below zero. Impairment charges would be allocated to individual amortizable units of goodwill pro-rata using their relative carrying amounts or could be allocated using another reasonable and rational approach.

The PCC decided not to prescribe any new disclosure requirements for goodwill and not to require a private company to present the tabular rollforward of goodwill that is currently required by U.S. GAAP. The alternative goodwill accounting guidance for private companies would be applied prospectively for goodwill existing as of the beginning of the period of adoption and for goodwill generated from business combinations entered into during fiscal years, and interim periods within those years, beginning after December 15, 2014. Goodwill existing at the beginning of the period of adoption would be amortized prospectively over 10 years or less than 10 years if the entity can demonstrate that another useful life is more appropriate. Early adoption would be permitted.

The PCC decided to move forward with the alternative for the accounting for goodwill without linking its adoption to the outcome of PCC Issue No. 13-01A, which is discussed above.

The FASB will discuss the proposed alternative and also consider the applicability of this alternative to public business entities and not-for-profit organizations in the coming weeks.