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EXTENDING A MEASURE OF GOODWILL TO NOT-FOR-PROFITS

FASB ASU 2019-06

Intangibles-Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities.

Executive Summary

- All not-for-profit (NFP) entities can amortize goodwill on a straight-line basis over 10 years or less in certain circumstances.
- NFPs will perform a test for impairment only if there is a triggering event and they will also have the option to perform the test at a global entity level.
- Customer-related intangible assets that cannot be sold or licensed independently from other business assets and non-competition agreements are included in goodwill, with certain exceptions.
- This update does not change the existing guidance in issued under FASB ASU 2014-02 or ASU 2014-18.
- The update is effective immediately and is applied prospectively.

Why is it Being Issued?

Key Theme: Align compliance with user relevance and cost benefit

The overriding goal of this amendment is to simplify the existing accounting for goodwill and identifiable intangibles for NFP entities. The hope is that by reducing the effort and costs of compliance with existing goodwill and intangibles accounting rules, NFPs will have a greater ability to expend resources on the entity's mission and compliance with other accounting and non-accounting regulations that are relevant to stakeholders.

In 2014, the Private Company Council (PPC) of the FASB issued relief to private companies in recognition of stakeholders' claims that the cost of compliance with an impairment based accounting approach to goodwill and with the current accounting for identifiable intangible assets acquired in a business combination far outweighed the benefits. Essentially, the impairment based approach resulted in an environment wherein the need for compliance was misaligned with decision-useful information. Private company stakeholders widely disregard goodwill in their evaluation of a company's financial condition, operational performance, and future outlook. Similarly, NFP stakeholders' decisions are not influenced by goodwill as recorded on the statement of financial position. Regarding the time, effort, and cost to initially measure the value of certain identifiable intangible assets, it was not justified in the eyes of stakeholders.

Who is Impacted?

This update affects all NFP entities, including those that are conduit bond obligors. To reaffirm the understanding of the definition of a NFP entity[1], a NFP entity is one that receives contributions from resource providers that do not expect commensurate or proportionate returns; operate for purposes other than to provide goods or services at a profit; and lack ownership interests like those of business entities[2].

Main Provisions

The amendments in this ASU do not establish new guidance within Topics 350 or 805; rather, the existing guidance is extended to NFPs[3]. This section provides a brief refresher on the Private Company Council guidance previously issued by way of ASU 2014-02 and ASU 2014-18.

Intangibles – Goodwill and Other (Topic 350)[4] – The complexities of the subsequent measurement for goodwill under an impairment based model are addressed through an accounting alternative election to amortize goodwill on a straight-line basis over 10 years or less. The option to amortize less than 10 years is afforded to non-public entities (and NFPs under ASU 2019-06) if the reduced useful life can be demonstrated to be more appropriate. On an annual basis, the entity will assess goodwill for impairment at either the reporting unit level or the entity level if a triggering event occurs. Should qualitative factors indicate that in fact goodwill is impaired, then the entity will perform the quantitative goodwill tests.

Business Combinations (Topic 805)[5] – An entity is required to consider the fair value of intangible assets that results from any one of the following three transaction models: (1) a business combination; (2) an assessment of the difference between the carrying amount of an investment and the amount of underlying equity in net assets of an investee under an equity method approach; and (3) adopting fresh-start reporting in a reorganization. Under this accounting alternative, a non-public entity (and a NFP entity under ASU 2019-06) will no longer measure and recognize separately from goodwill, customer-related intangible assets or noncompetition agreements. A caveat to this accounting alternative is that if the customer-related intangible assets can be marketed or licensed independently from other assets of the business, then those assets should be accounted for and measured separately from goodwill.

Lastly, if an entity adopted the accounting alternative under Topic 805, it must also adopt the accounting alternative described above within Topic 350. However, if an entity elects the accounting alternative within Topic 350, it is not required to elect the alternative afforded within Topic 805[6].

Our Thoughts On

NFPs are currently undergoing a massive overhaul of their reporting model by way of ASU 2016-14 (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities in an effort to improve the disclosures and disaggregation of financial information for stakeholders. The amendments contained in ASU 2016-09 continue to emphasize the importance of user-relevant and cost-effective information for stakeholders of NFPs. These amendments may provide opportunities for NFPs to save costs on accounting standards compliance and simplify the accounting for goodwill and business combinations.

Endnotes

[1] FASB ASU 2019-06
[2] FASB Master Glossary – Not-for-Profit Entity
[3] FASB ASU 2019-06
[4] FASB ASU 2014-02
[5] FASB ASU 2014-18
[6] FASB ASU 2019-06

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