FASB Issues PCC Alternative for Identifiable Intangible Assets in a Business Combination

February 25, 2015
Highlights of the Update


This Update was issued based on feedback received by the FASB and the Private Company Council (PCC) stating the cost and complexity of separately recognizing and accounting for certain identifiable intangible assets acquired in a business combination were significant and the benefits to users often did not justify the costs. As such, this ASU is intended to reduce the cost and complexity of accounting for these intangible assets while maintaining the most important information for users.

Main Provisions

Current U.S. GAAP requires tangible and intangible assets acquired in a business combination to be separately recognized at their acquisition-date fair value. The amendments in ASU 2014-18 allow an entity to not separately recognize, in a business combination, noncompetition agreements (NCAs) and customer-related intangible assets (CRIs) not capable of being sold or licensed independently from the other assets of a business. This alternative does not change the accounting for tangible or intangible assets other than NCAs and qualifying CRIs.

There is a rebuttable presumption that most CRIs are not capable of being sold or licensed independently; thus, together with NCAs, would not be subject to a separate valuation, but subsumed into goodwill. However, certain CRIs (e.g., mortgage servicing rights, commodity supply contracts, core deposits and customer information such as names and contact information) would continue to be separately recognized if they are able to be sold or licensed independently.

Interplay with the PCC goodwill accounting alternative

If an entity elects this alternative, it must also adopt ASU 2014-02, Intangibles—Goodwill and Other (Topic 350), Accounting for Goodwill, requiring amortization of goodwill over a period of 10 years (or less). However, the reverse is not required – an entity that adopts ASU 2014-02 is not required to adopt ASU 2014-18.

Who is impacted and when?

This alternative is available to private companies, which are entities other than public business entities, not-for-profit entities, or employee benefit plans within the scope of Topics 960 through 965 on plan accounting (see DHG A&A Update 2014-04, FASB Issues Definition of Public Business Entity for additional information).

The provisions of this alternative apply when a private company is required to recognize or otherwise consider the fair value of intangible assets as a result of any of the following in-scope transactions:

1. Applying the acquisition method under Topic 805, Business Combinations,
2. When a new investment is accounted for using the equity method under Topic 323, *Investments--Equity Method and Joint Ventures* in assessing the nature of the differences between the carrying amount of an investment and the amount of the underlying net assets of an investee, or

3. Adopting fresh-start reporting under Topic 852 on reorganizations.

### Effective date and transaction

The effective date is tied to the occurrence of a business combination (or other in-scope transaction), and thus may be different for different entities. The decision to adopt ASU 2014-18 must be made upon the occurrence of the first transaction within scope (e.g., business combination) in fiscal years beginning after December 15, 2015, with early adoption permitted for financial statements not yet made available for issuance.

Because the alternative is an accounting policy election, it is required for any business combination entered into after adoption.

The following summarizes the transition guidance:

- Early adoption permits subsuming NCAs and qualifying CRIs into goodwill for acquisitions occurring in any period for which financial statements have not yet been made available for issuance. Amortization of goodwill related to the acquisitions occurring in the year of adoption would begin as of the date of the acquisitions. For example, if a September 30, 2014 fiscal year end (or earlier) entity has financial statements not yet available for issuance, the guidance could be elected for acquisitions during 2014.
- NCAs and CRIs from previous acquisitions continue to be presented separately and accounted for under existing U.S. GAAP.
- If the entity has not already adopted ASU 2014-02, it would also begin amortizing all existing goodwill over a period not to exceed 10 years, and elect to evaluate goodwill impairment at the entity or reporting unit level.
- Prior year financials are not restated as a result of the adoption of ASU 2014-18 or 2014-02.

### Near-term considerations

If an entity expects to adopt the alternative, it should consider the impact on any specialists involved in determining the fair value of the net assets acquired in a business combination.

As with other PCC alternatives, this guidance cannot be applied by public business entities and not-for-profit entities. Companies should evaluate their current user needs and future plans in order to determine whether adoption of the alternative is appropriate.
Appendix A – Frequently Asked Questions – ASU 2014-18

Note: The FAQs below are focused primarily on the adoption of ASU 2014-18 related to intangible assets. If an entity has not previously adopted the goodwill alternative (ASU 2014-02), it will also need to consider the requirement to adopt the goodwill alternative. See Appendix B for additional FAQs related to ASU 2014-02.

Adoption

1. **What factors should an entity consider in deciding whether or not to adopt the private company accounting alternatives?**

   Factors entities should evaluate before adopting include:
   - Determine the entity is within the scope of the alternatives.
   - Ensure those charged with governance are adequately informed and have sufficient opportunity to evaluate the adoption of the alternatives.
   - Consider informing primary financial statement users of the alternative and determining whether the users will object to adoption.
   - Review loan covenants to determine if there will be an impact on the covenants, whether lender approval of changes in accounting is required and similar matters.
   - Potential future user needs, particularly if a major change in creditors or ownership is being contemplated, or if the entity is considering going public in the future.

2. **Can we expect the alternatives to be made available to public business entities and not-for-profit entities in the future?**

   In November 2013, the FASB decided to add a project related to accounting for goodwill for public business entities and not-for-profits to its agenda. Further, in connection with the issuance of ASU 2014-18, the FASB added a project to its agenda to consider the applicability of the accounting for intangible assets for public companies and not-for-profits. It is too early to determine whether the same or similar alternatives may be made available to those entities.

3. **Can an entity adopt just the intangible assets alternative without adopting the goodwill alternative or vice versa?**

   Entities who adopt the intangible assets alternative must adopt the goodwill alternative on a prospective basis, if the entity had not already done so; however, this is a one way link so entities may adopt the goodwill alternative without adopting the intangible assets alternative. This was required as the FASB and PCC did not believe it would be appropriate to subsume finite-lived intangible assets into goodwill unless goodwill is amortized. As a result, by requiring the adoption of the goodwill alternative, the intangible assets subsumed into goodwill will be amortized over the period of goodwill amortization.

4. **Is the election to adopt ASU 2014-18 on an acquisition by acquisition basis or an entity election?**

   The adoption of the Update is a change in accounting principle and would be applicable to all acquisitions after the date of the adoption.
5. In situations where there are different financial statements issued for entities within a group (e.g. consolidated financial statements and separate subsidiary financial statements), do the alternatives need to be applied to all financial statements issued?

We would generally expect consistent treatment among entities in a control group. However, the determination of whether to adopt a PCC alternative or to continue applying current guidance is at the reporting entity level. So it is possible for a subsidiary to elect an alternative for its separate company financial statements while a parent company continues to account for intangible assets and goodwill, including impairment under pre-existing GAAP, for its consolidated financial statements. Any such circumstances would require the subsidiary accounting to be conformed to the parent in consolidation, and it would be appropriate to question the justification for differing accounting policies.

6. If a business combination occurred in the preceding year and the purchase price allocation was preliminary as the entity was awaiting information to identify and measure all assets acquired and liabilities assumed, may the entity apply the provisions of ASU 2014-18 to the earlier transaction?

No. The alternative is only available for transactions occurring in periods for which financial statements have not previously been made available for issuance. Even though the prior accounting for the earlier business combination was incomplete, the entity must complete the purchase price allocation and continue to identify NCAs and CRIs pertaining to the earlier acquisitions based upon then-existing guidance.

Recognition and Scope

1. When an entity adopts the intangibles alternative, what are some of the specific considerations in identifying the assets acquired and liabilities assumed in connection with the acquisition method of accounting?

An entity should work with those advisors who may be involved in the transaction to ensure that they are familiar with the provisions of the alternative. Generally, other than NCAs and CRIs meeting the criteria of the alternative (to be subsumed into goodwill), the recognition and measurement principles for other assets acquired remain unchanged. Accordingly, valuations will continue to be necessary for tangible assets and other intangible assets such as technology, trade names, patents, etc. To the extent there are CRIs, an evaluation should be made as to whether the CRIs are capable of being sold or licensed independently from the other assets of the business and thus continue to be subject to recognition apart from goodwill.

2. Could favorable and unfavorable leases be considered customer-related intangible assets and subsumed into goodwill?

No. Leases should still be evaluated as favorable or unfavorable leases and recorded separately in a business combination.

3. What are the general nature of customer-related intangible assets and why were they included in ASU 2014-18?

Customer-related intangibles are a broad category of intangible assets. Paragraph 805-20-55-20 identifies customer related intangibles as customer lists, order or production backlogs, customer contracts and those relationships associated therewith, and non-contractual customer relationships.

Under GAAP, prior to the issuance of ASU 2014-18, each of these types of relationships were subject to identification and measurement generally because they met recognition criteria (i.e.
contractual-legal by nature or separable from other assets of the business). Non-contractual customer relationships were subject to recognition and measurement under the basis that there is a value associated with the information an entity has about the customer, the regular contact the entity has with the customer and the ability of the customer to make direct contact with the entity. Accordingly, it was deemed that such customer relationships met the contractual-legal criteria if an entity had a practice of establishing contracts with its customers, even if no contracts existed at the acquisition date.

Based upon outreach, many users indicated they do not consider the fair values assigned to customer relationships to be particularly useful, they often consider such assets to be no different than goodwill and they often ignore the amortization or impairment related thereto. For that reason, and given the subjective nature of some of the assumptions in the valuations (such as expected future contracts to be obtained related to a customer), the decision was made not to require recognition separate from goodwill unless they are capable of being sold or licensed independently from other assets of the business. The Update cites certain examples, where it is presumed the assets would be separately recognized such as: mortgage servicing rights; commodity supply contracts; core deposits and customer information (for example names and contact information).

4. Does the alternative require any customer-related intangible assets to be separately recognized in a business combination?

Yes. If a customer-related intangible asset acquired in a business combination is capable of being sold or licensed independently from other assets of the business it must be separately recognized. Examples from 805-20-25-31 include: mortgage servicing rights, commodity supply contracts, core deposits, and customer lists.

5. Within certain industries, there are certain assets which are referred to as “contract assets.” This concept was further used in the context of the new revenue recognition standard. Are contract assets eligible for being subsumed into goodwill?

No. The term contract asset is generally used in the context of revenue recognition and can relate to items such as in the construction industry an entity’s right to future payment for consideration of the transfer of goods or services prior to the time payment is due. For example, “costs and estimated earnings in excess of billings” would be a contract asset.

Furthermore, some contracts are established such that an entity has multiple performance obligations. If an entity has satisfied one (or more than one) performance obligation but must satisfy additional (or all) performance obligations to receive payment, a contract asset is the right to receive payment for the portion of goods or services transferred prior to the date of the business combination. Once the entity has an unconditional right to consideration (i.e. when the additional performance obligations are satisfied) the entity will record a receivable on the balance sheet; however, prior to recognition of the receivable the entity has a contract asset for the goods or services transferred to the customer. Because a receivable will eventually be recorded for the goods or services, the PCC and FASB concluded that contract assets should not be considered customer-related intangible assets for purposes of applying this alternative and are thus excluded from this alternative and should be recognized separately from goodwill.

6. What is the difference between contract assets and customer contracts?

Contract assets and customer contracts refer to different arrangements. Contract assets, as described above and defined in the FASB Codification’s Master Glossary, are not considered intangible assets and thus are not within the scope of the alternative.
As noted above, customer relationships can be contractual or non-contractual. Some entities establish relationships with their customers through contracts (e.g. service contracts, purchase orders, backlogs) such that a relationship is established in that the customer will continue to do business with an entity beyond the contractual term. These customer relationships are considered intangible assets and are within the scope of the alternative. However, if the customer relationship can be sold or licensed separately the relationship would need to be recognized separately from goodwill.

7. **How does the adoption of ASU 2014-18 impact “unfavorable” contracts with customers?**

   The Update only addresses the separate recognition of customer-related intangible assets. Should there be material unfavorable contracts at the date of the acquisition, these unfavorable contracts are considered liabilities and should be separately identified and measured.

8. **Would adoption of the alternative for intangible assets impact equity method investments?**

   Because the alternative is prospective, NCAs and CRIs associated with existing equity method investments would not be affected (however existing equity method goodwill would be amortized due to the adoption of ASU 2014-02). If the alternatives are elected, because they are accounting policy elections, they should be applied when the entity applies the acquisition method (ASC 805-10-05-4), the equity method of accounting in accordance with Topic 323, Investments – Equity Method and Joint Ventures, or adopting fresh-start reporting in accordance with Topic 852, Reorganizations.

   In applying the alternatives to new equity method investments, when assessing the nature of the excess of the cost of an equity method investment over the underlying interest in the net assets of the investee acquired, the entity would not need to value NCAs and qualifying CRIs of the investee separately from equity method goodwill.

9. **What are the tax implications for the adoption of the alternative?**

   The tax implications will depend upon whether the acquisition is a taxable or non-taxable transaction.

   If the target is acquired in a taxable business combination, generally all of the values assigned to goodwill and intangible assets are amortizable and deductible over 15 years for income tax purposes. As such, the tax treatment will be unchanged. The difference in allocation of amounts for financial statement purposes (and the resulting amortization of goodwill) will result in differences in the timing of deductions/amortization for financial reporting and tax purposes. For example, if under prior guidance, the entity allocated $5 million to NCAs and CRIs with a useful life of 8 years, such would have been amortized for financial reporting over 8 years and over 15 years for income tax purposes. Under adoption of the alternative, assuming a ten year financial reporting amortization period, the $5 million subsumed into goodwill would be amortized over ten years with the tax amortization unchanged at 15 years. Accordingly, the timing differences would change as a result of a change in the amortization period (and the resulting changes in reported financial reporting income due to the difference in reported income).

   If, however, the target was acquired in a non-taxable business combination, there will be an impact on the initial recognition of deferred taxes in the acquisition balance sheet and the resulting amount of goodwill. Under ASC 740, deferred taxes are recognized for financial reporting purposes for, among other items, differences in the financial reporting amounts and tax basis of acquired assets and liabilities assumed of an acquired entity, except for goodwill that is not deductible for tax purposes. Assume, for example, prior to the adoption of the intangible assets alternative, an acquirer valued non-deductible NCAs and CRIs in an acquisition at $5 million, and goodwill was $2 million. Assuming a 35% tax rate, an additional entry would be
required to recognize a deferred tax liability of $1.75 million for the excess of the values assigned to assets other than the non-deductible goodwill (i.e. the differences associated with NCAs and CRIs). As a result, goodwill would have been increased from the preliminary amount of $2 million to $3.75 million. As the NCAs and CRIs were amortized, a deferred tax benefit would be recognized for the amount of the amortization for book purposes not deductible for income tax purposes. If goodwill were impaired (or amortized under ASU 2014-02), the non-deductible charge would not be tax effected and treated as a “permanent difference.”

Assuming the same facts, after the adoption of ASU 2014-18, there would be no amounts assigned to NCAs and CRIs for financial reporting purposes and goodwill would be recognized as $7 million. No deferred taxes would be recognized in the acquisition accounting since there are no longer any basis differences other than non-deductible goodwill. Accordingly, as the goodwill of $7 million is amortized for financial reporting purposes, no tax benefit would be recognized and the impairment/amortization would be treated as a “permanent difference.”

10. Does the adoption of the intangibles alternative impact the amortization period for goodwill?

Under ASU 2014-02, goodwill should be amortized over a period of 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate. In the Basis for Conclusions of ASU 2014-18, significant favorable contracts with a life less than 10 years subsumed into goodwill are given as an example which may justify a shorter useful life for goodwill. We believe the existence of significant non-contractual customer relationships or noncompetition agreements could be factors in determining a useful life less than 10 years for goodwill.

Presentation and Disclosure

1. Are there any incremental disclosure requirements as a result of adopting the intangible assets alternative?

No. ASU 2014-18 no longer requires certain intangible assets to be recognized. ASC Topic 805 includes a requirement to separately disclose a qualitative description of intangible assets that do not qualify for separate recognition.

2. Are disclosures required to state the accounting alternatives may not be consistent with the accounting for public business entities or for other private companies who chose not to adopt the alternatives?

No. The PCC alternatives are GAAP. There are no requirements to indicate the accounting differs from public business entities or they may differ from financial statements of other private companies who do not adopt the alternative. However, similar to other areas where GAAP allows for selection among acceptable accounting alternatives, accounting policy disclosures will include the basis for accounting. Also, in the year of adoption, the change in accounting principle and its effects on the financial statements should be disclosed in accordance with ASC Topic 250.

Transition

1. For effective dates and transition, the ASU indicates the decision to adopt ASU 2014-18 must be made upon the occurrence of the first transaction within scope (e.g. business acquisition) in fiscal years beginning after December 15, 2015, and the effective date of adoption depends on the timing of that first in-scope transaction. It further states that early adoption is permitted. What exactly does this mean?
What the transition guidance means, is that an entity must make a decision as to whether or not it is going to adopt ASU 2014-18 when the first business combination occurs in years beginning after December 15, 2015. If an entity does not adopt the Update upon the occurrence of the first business combination occurring in calendar year 2016 (or thereafter if no business combinations occur in 2016), any subsequent adoption would be subject to the change in accounting principle guidance under ASC 250, *Accounting Changes and Error Corrections*, including the requirement that the entity justify the change on the basis that it is preferable. Intangible assets in a business combination meeting the criteria in ASU 2014-18 would be included in goodwill and goodwill would begin to be amortized at the beginning of the period of adoption for all existing goodwill and from the date of acquisition for goodwill arising in the period of adoption.

An entity may, however, elect to adopt in years prior to 2016 related to any business combinations taking place in periods for which the financial statements have not been previously made available for issuance. For example, if an acquisition occurred in either the year ending September 30, 2015 or September 30, 2016, it could early adopt the provisions of ASU 2014-18 in either of those years (once elected, all future acquisitions would follow the adopted provisions). However, if an acquisition occurred in fiscal 2017 (the first year beginning after December 15, 2015) and the entity did not elect to adopt ASU 2014-18 for that acquisition, it could not elect the adoption for future acquisitions unless it met the ASC 250 requirements for preferability of the change in accounting principle.

2. **If an entity has received GAAP departures for not separately recognizing customer-related intangible assets and noncompetition agreements for prior acquisitions, will adopting the alternative cure the GAAP departure?**

No. ASU 2014-18 is only for acquisitions occurring in years for which financial statements have not previously been made available for issuance. If an entity has not previously recorded intangible assets acquired in a business combination, the amount of the goodwill and intangibles recognized in its financial statements for the prior acquisitions may not be the appropriate amount. It is likely that prior departures will continue to result in opinion (or report) modifications until the intangible assets and related amortization are appropriately recognized and prior periods are restated.

**Other**

1. **What if an entity is no longer within the scope of the alternative or its users request the entity no longer apply the alternative?**

In the event an entity adopts the alternative and later decides that changes in circumstances warrant a change in accounting principle, there are certain implications that should be considered. For example, if the entity undertakes an IPO or is acquired and the entity’s financial statements must be filed with the SEC, such financials would need to be prepared under applicable SEC requirements. As such, financial statements of historical periods using the alternatives would need to be restated. Entities may find it costly and extremely difficult to determine the amounts necessary to restate the financial statements. If an entity wishes to adopt the alternative in situations where the alternative may not be allowed in the future, it should consider retaining sufficient documentation to enable separately recognizing intangible assets and impairment testing of goodwill from the date of adoption of the alternative.
Appendix B – Frequently Asked Questions – ASU 2014-02

Note: If an entity has not previously adopted the goodwill alternative (ASU 2014-02), it must also adopt the goodwill alternative when the intangible asset alternative is adopted. This Appendix describes certain considerations for the initial adoption of ASU 2014-02.

Adoption

1. **Can an entity adopt only part of the goodwill alternative such as the impairment testing approach without amortizing goodwill?**

An entity must adopt the alternative in its entirety (amortization and impairment) or continue to account for goodwill under the prior accounting and impairment model.

2. **When making the policy election to test for impairment at the entity level or the reporting unit level, when should the election be made and is it on a unit of account level (i.e. by acquisition) or entity wide?**

The policy election should be made in the period in which the accounting alternative is first adopted. The decision to test for impairment at the entity level or the reporting unit level is an accounting policy decision at the entity-wide level. As such, the election is applicable to all goodwill existing at the date of adoption and any subsequently recognized goodwill (not on an acquisition by acquisition basis).

3. **If an entity has received GAAP departures for not separately recognizing customer-related intangible assets and noncompetition agreements or for not performing impairment tests in prior periods, will adopting the alternative cure the GAAP departure?**

Implicit in the adoption of the alternative, which is a change from one generally accepted accounting principle to another generally accepted accounting principle, is that the entity has previously accounted for goodwill in accordance with GAAP. If an entity has not previously recorded intangible assets acquired in a business combination or evaluated goodwill for impairment, the amount of the goodwill recognized in its financial statements at adoption of the alternative may not be the appropriate amount. As such, an entity must determine whether the carrying amount is in accordance with GAAP prior to the adoption of the PCC alternative, which would generally require evaluation of prior year(s) information, a determination as to whether an impairment loss would have been recognized had the entity previously accounted for goodwill under the impairment model, and if so, how much. It is likely that prior departures will continue to result in opinion (or report) modifications until either the goodwill from prior periods is evaluated and restated, if needed, or until goodwill is no longer material due to the amortization.

4. **What are the tax implications for the adoption of the goodwill alternative?**

The adoption of the alternative is not likely to have an effect on the "current" taxes of an entity, but taxable entities may have temporary differences which would need to be accounted for under ASC 740. For example, for taxable business combinations in which there is a step-up in basis and the related goodwill is deductible, the amortization under the alternative will give rise to a deferred income tax asset or liability depending on the difference between the goodwill amortized for book purposes versus the amortization for tax purposes. If the goodwill is related to a non-taxable business combination, the goodwill amortization will be treated as a "permanent item" and no tax benefit will be recognized in the statement of operations.
5. **Would adoption of the goodwill alternative impact equity method investments?**

   If the excess of the cost of an equity method investment over the underlying equity resulted in "equity method goodwill," adoption of the accounting alternative will result in amortization of equity method goodwill. Impairment would not be evaluated under the guidance in the alternative but continue to be evaluated under Topic 323, *Investments – Equity Method and Joint Ventures*.

### Amortization

1. **Is an entity required to justify the selection of a useful life of 10 years?**

   No, 10 years is the default useful life. The alternative provides an opportunity for entities to demonstrate that a shorter useful life is more appropriate based upon its own specific facts and circumstances if they so choose.

2. **What factors should be considered in determining a life less than 10 years is more appropriate?**

   Factors an entity might consider will vary based on the situation and require the use of judgment. Some factors include:
   - The relationship of the acquired business’s activities to the acquiring entity’s activities. 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, if shorter than 10 years.
   - Degree of autonomy expected to be retained by the acquired entity post-acquisition, which may be influenced by significant differences in the relative size of the entities or differences in the nature of the products/services.
   - Time elapsed since the business combination. For example, in the year of adoption the longer period of time that has passed since the acquisition occurred, the more likely an entity may be able to demonstrate a shorter useful life is more appropriate.
   - Results of prior impairment tests.
   - If the entity has adopted ASU 2014-18 and thus no longer separately identified and measured certain customer related intangibles or noncompetition agreements, and if a qualitative assessment is made that such intangibles may have been significant to the acquisition and had a useful life less than 10 years, such may be an indication that a goodwill life of less than 10 years would be more appropriate.

3. **Can the estimated useful life change in subsequent periods?**

   The remaining useful life may be revised if events and changes in circumstances warrant revisions to the remaining useful life. However, the cumulative useful life cannot exceed 10 years. If the estimated remaining useful life is revised, the remaining carrying amount of goodwill should be amortized prospectively on a straight-line basis over the revised remaining life.

4. **Could a life of zero be appropriate, particularly upon transition and adoption of the alternative?**

   In the deliberation of alternatives, consideration was given to immediate write-off of goodwill (a useful life of zero). The PCC rejected that alternative in favor of the revised amortization and impairment model. The alternative does not provide any guidance as to whether or when direct write-off would be appropriate.
Impairment

1. **How does an entity decide whether a “triggering event” has occurred resulting in the need to evaluate goodwill for impairment?**

   Entities adopting the provisions of ASU 2014-02 are no longer required to test for impairment annually, but must evaluate whether an event has occurred or circumstances have changed that indicate the fair value of the entity (or reporting unit) may be less than its carrying amount. Examples of triggering events are included in ASC 350-20-35-3C (a) through (g) as follows:

   a) Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets

   b) Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity’s products or services, or a regulatory or political development

   c) Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows

   d) Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods

   e) Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation

   f) Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit

   g) If applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers).

2. **What are the next steps when a triggering event has occurred?**

   An entity will continue to have the option to first perform a qualitative assessment (“step zero”) to determine whether it is more likely than not that the entity’s (or 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 qualitative approach an entity should consider the same types of events and circumstances noted above for the assessment of triggering events. 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. In contrast, the optional qualitative assessment is part of an entity’s documented goodwill impairment test and requires the entity to positively assert its conclusion as to whether it is more likely than not that goodwill is not impaired based on consideration of all events and circumstances, not just one triggering event.
See ASC 350-20-55-26 for a flowchart providing an overview of the impairment analysis under the alternative. How does the determination of the amount of and accounting for the impairment loss compare to current GAAP?

The goodwill impairment loss under the alternative represents the excess of an entity’s (or a reporting unit’s) carrying amount including goodwill over its fair value, limited to the carrying amount of the entity’s (or reporting unit’s) goodwill. The PCC simplified goodwill impairment measurement 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 loss should be allocated to individual amortizable units of goodwill on a pro rata basis using their relative carrying amounts or using another reasonable and rational basis.

3. **How is the goodwill impairment test impacted if other assets (or asset groups) are tested for impairment at the same time?**

   The other asset (or asset group) should be tested for impairment before goodwill.

### Presentation and Disclosure

1. **How should goodwill be presented in the balance sheet?**
   
   As a separate line item net of accumulated amortization and impairment.

2. **Where is the amortization expense recorded in the income statement?**
   
   Within income statement line items within continuing operations unless the amortization is associated with a discontinued operation.

3. **What disclosures are required in the year of adoption?**
   
   An entity should disclose the change in accounting policy. In addition, the following disclosures are required each year beginning in the year of adoption (i.e. year 2 is the first year of comparative disclosures):
   
   a) Gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss.
   
   b) Aggregate amortization expense for the period
   
   c) Goodwill included in a disposal group classified as held for sale and goodwill derecognized during the period without having previously been reported in a disposal group classified as held for sale.

   In addition, disclosures are required in each period additional goodwill is recognized and for each goodwill impairment loss recognized. Quantitative disclosures about significant unobservable inputs used in Level 3 fair value measurements are not required (ASC 820-10-50-2(bbb)).
4. Are disclosures required for the rationale supporting the selected useful life, particularly if a life of less than 10 years is selected?

No. There are no specific requirements to disclose the basis for selection of the amortization period. However, even though not required by the alternative, an entity may disclose the amortization period in the accounting policies note similar to a disclosure of the amortization period of finite-lived identifiable intangible assets. In the period in which there is an addition to goodwill, such as by acquisition, there will be disclosures as to the amortization period.