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Accounting

FASB Votes to Amend Goodwill Measurement Rules to Make Them Simpler, Less Costly

The Financial Accounting Standards Board tentatively voted to amend the goodwill measurement test to provide simpler, less costly procedures for testing goodwill impairment.

Goodwill is often a very significant asset recorded as the result of an acquisition.

If finalized, an impairment of goodwill a company takes will be a one-step test, which is the amount by which the carrying value of a reporting unit exceeds its fair value, according to FASB's Oct. 28 discussions.

The board voted to eliminate step two of the current two-step impairment test that companies are required to perform. Eliminating step two moves U.S. generally accepted accounting principles much closer to rules under international financial reporting standards, according to comments made by FASB Chairman Russell Golden.

The guidance, if finalized, would require prospective application, FASB said.

Snapshot on Goodwill. Goodwill is recorded when a company buys another company and the purchase price is greater than the combination of the fair value of the identifiable tangible and intangible asset acquired. It is reported on the balance sheet as a noncurrent asset.

The amount of goodwill is subject to a goodwill impairment test at least once a year. Goodwill becomes impaired when the value of the acquired asset has fallen below what the company paid for it. An example would be if the company's actual results are lower than what was forecast in the deal models.

More Mergers and Acquisitions. Information about goodwill impairment is valuable to investors because of the large amount of a company's net worth it can represent. Furthermore, acquisitions—especially in this current technology age—often involve the purchase of assets that are intangible.

FASB's decision is especially timely because mergers and acquisitions are on the rise in 2015, a practitioner told Bloomberg BNA Oct. 30.

''It's a step in the right direction,'' said Greg Franceschi, global financial reporting leader at Duff & Phelps Corp.

Franceschi said more closely aligning GAAP with IFRS is especially significant since global M&A is on track to have an 11 percent increase over 2014.

''This is a record level of M&A growth—challenging the height of the market in 2007,'' Franceschi said.

FASB said its approach will be a ''phased one'' with the first focused on the impairment test simplification. In the second phase of the project, FASB will work with the International Accounting Standards Board to address any additional concerns about the subsequent accounting for goodwill, board discussions indicated.

Identifiable Intangibles. FASB also discussed its project on accounting for identifiable intangible assets in a business combination.

The board considered its staff research and outreach with IASB, and said it would continue to engage with the international community on the topic.

Potential decisions related to not-for-profits were deferred.

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