

Case 18-5

Ride Along

In early 2016, Ride Along Corporation (Ride Along or the “Company”), a domestic company that does not meet the definition of a public business entity (PBE), began manufacturing and selling bicycles to retail stores nationally. Ride Along’s fiscal year ends on December 31, and it has been experiencing growth over the past decade. Ride Along is required to prepare and issue annual consolidated financial statements to its shareholders and the local bank. These financial statements are to be prepared in accordance with U.S. GAAP. Ride Along is 75 percent owned by a private equity firm and 25 percent owned by its founder. The founder and private equity firm plan to either take Ride Along public in an initial public offering or sell it to an existing public company in five years. Ride Along did not have goodwill before January 1, 2017, and has established an accounting policy to test goodwill for impairment annually on November 30. The Company has determined that each of its goodwill reporting units is a legal entity.

On February 1, 2017, Ride Along acquired a 100 percent ownership interest in a bicycle tire manufacturer, Mini Tires Company (Mini). The purposes of the acquisition were to (1) reduce the cost associated with buying bicycle tires from third-party suppliers and (2) expand Ride Along’s operations by selling tires directly to retail stores. Mini met the definition of a business¹ but did not meet the definition of a PBE. The founder of Mini will work as an employee of Ride Along and has signed a two-year noncompete agreement. Ride Along paid \$20 million cash (purchase price), which resulted in goodwill of \$6 million and an intangible asset (a customer list) of \$2 million.

During 2017, Ride Along continued to gain market share in the bicycle industry and determined it wanted to own retail stores. On June 1, 2017, Ride Along acquired a 100 percent ownership interest in 10 independently owned retail stores and recorded \$10 million of goodwill as part of the acquisitions.

In January 2014, the FASB issued ASU 2014-02, *Intangibles — Goodwill and Other (Topic 350): Accounting for Goodwill* — a consensus of the Private Company Council, and in January 2017, the FASB issued ASU 2017-04, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*.

During 2019, the founder of Mini resigned from Ride Along and started a new business after his noncompete agreement expired. With his departure, 45 percent of the customers on Mini’s original customer list, which was classified as an intangible asset on Ride Along’s statement of financial condition, provided notice that they would no longer do business with Ride Along. This migration resulted in an impairment of the customer list intangible. These customers represent 35 percent of total future revenue for the Tire reporting unit and the loss of these customers reduced the fair value of Mini by 35 percent. No other management changes are expected. Even with the loss of Mini’s

¹ In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This case does not assess whether the subject entities meet the definition of a business, but rather, assumes as a fact that they do.

customers, Ride Along performed well because of the strength of the retail stores and strong bicycle sales leading to results that exceeded expectations. Therefore, Ride Along increased its revenue and operating income in its five-year forecast; cash flows continue to be positive.

Furthermore, general economic conditions are stable for all reporting units, including debt and equity markets. Ride Along is a private company that does not actively trade its shares; however, because of stable economic conditions and the Company's increasing revenue and operating income, had Ride Along traded its shares, the value of these shares would have steadily increased. Labor costs and material for each reporting unit have increased in line with inflation and are expected to do so for the foreseeable future.

As of December 31, 2019, before considering the departure of Mini's founder, the fair value of Ride Along was \$210 million (fair value by reporting unit is as follows: Bicycle, Tire, and Retail stores were 55 percent, 10 percent, and 35 percent, respectively) and the carrying value, including goodwill, was \$145 million (carrying value by reporting unit is as follows: Bicycle, Tire, and Retail stores were \$65 million, \$20 million, and \$60 million, respectively). Note that Ride Along does not have any tax-deductible goodwill.

Required

1. ASU 2014-02 is effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. ASU 2017-04 is effective for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021; early adoption is permitted as of January 1, 2017, for annual and any interim goodwill impairment tests occurring on or after January 1, 2017. What should Ride Along consider before deciding whether to adopt the private-company alternative in ASU 2014-02?
2. Assuming Ride Along adopts the goodwill alternative in ASU 2014-02 for the fiscal year ending December 31, 2017, may Ride Along subsequently change its accounting for goodwill and revert to PBE GAAP? If so, how would Ride Along account for this change and what disclosures must it include in the consolidated financial statements?

For the questions below, assume Ride Along early adopted ASU 2017-04 in 2019.

3. For the year ended December 31, 2019, describe (in detail, including identification of reporting units) the analysis that Ride Along would perform to support whether its goodwill is recoverable or impaired as well as the accounting conclusion reached. If the Company concludes that its goodwill is impaired, what would it record as the amount of the goodwill impairment?
4. Assume Ride Along (or one of its reporting units) has zero or negative equity. How would Ride Along perform its goodwill impairment assessment?