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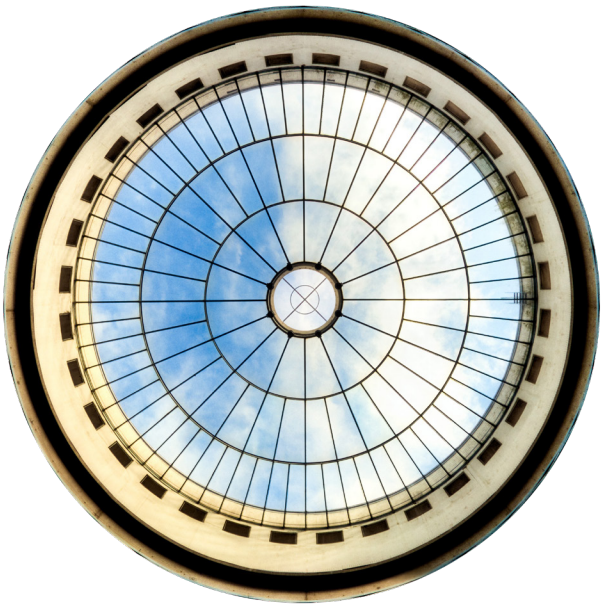

In This Issue

FASB Extends Certain Private-Company Accounting Alternatives to Not-for-Profit Entities

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Introduction

On May 30, 2019, the FASB issued ASU 2019-06,[1] which extends certain private-company accounting alternatives to not-for-profit entities. Specifically, the ASU permits such entities to elect alternative approaches to account for goodwill and certain identifiable intangible assets acquired in a business combination.

In 2014, the FASB issued ASUs 2014-02[2] and 2014-18,[3] which offered private companies simplified alternatives for the subsequent accounting for goodwill and the accounting for certain identifiable intangible assets acquired in a business combination. Those alternatives were initially developed by the Private Company Council on the basis of feedback from private companies and their stakeholders about the costs and complexity associated with the goodwill impairment test and the accounting for certain identifiable intangible assets. When the Board issued ASUs 2014-02 and 2014-18, it was aware that the issues addressed in them were not limited to private companies. Accordingly, it added a project to its agenda to determine whether to extend the alternatives to not-for-profit entities and ultimately issued ASU 2019-06. The Board noted that the new guidance is intended to extend, but not amend, the scope of the accounting alternatives in ASUs 2014-02 and 2014-18.

[1] FASB Accounting Standards Update (ASU) No. 2019-06, *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*.
[2] FASB Accounting Standards Update No. 2014-02, *Accounting for Goodwill* — a consensus of the Private Company Council.
[3] FASB Accounting Standards Update No. 2014-18, *Accounting for Identifiable Intangible Assets in a Business Combination* — a consensus of the Private Company Council.

Goodwill Accounting Alternative

Under ASU 2019-06, a not-for-profit entity is permitted to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if it demonstrates that another useful life is more appropriate. Upon adoption of the accounting alternative, the entity must make an accounting policy election to test goodwill for impairment at either the entity level or the reporting-unit level. Goodwill of the entity (or the reporting unit) is tested for impairment if an event occurs or circumstances change indicating that the fair value of the entity (or the reporting unit) may be below its carrying amount. Annual testing of goodwill for impairment is not required.

If elected, the alternative must be applied to all existing goodwill and new goodwill recognized after the ASU's effective date. In addition, the entity must comply with the alternative's related subsequent measurement and disclosure requirements.

Intangible Assets Accounting Alternative

Under the ASU, a not-for-profit entity is permitted to subsume into goodwill the following intangible assets acquired in a business combination:

- "Customer-related intangible assets unless they are capable of being sold or licensed independently from other assets of a business."
- "Noncompetition agreements."

Effective Date and Transition

The amendments in the ASU became effective upon its issuance. A not-for-profit entity should apply the goodwill accounting alternative, if elected, prospectively for all existing goodwill and for all new goodwill generated in acquisitions. The entity should apply the intangible assets accounting alternative, if elected, prospectively upon the occurrence of the first transaction within the scope of the alternative.

In addition, while an entity that elects the intangible assets accounting alternative must adopt the goodwill alternative to amortize goodwill, it is not required to adopt the intangible assets accounting alternative if it elects the goodwill accounting alternative.

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