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Audit Alert: Private company guidance issued on intangible assets in a business combination

At the end of 2014, the FASB released ASU 2014-18, *Accounting for Identifiable Intangible Assets in a Business Combination – a consensus of the Private Company Council*. Under the ASU, private companies, as defined in the Codification, can elect to no longer recognize acquired intangible assets pertaining to noncompete agreements and customer relationships separately from goodwill, except for customer-related intangible assets that can be separately sold or licensed independently from other assets of the business. Examples of customer-related intangibles that may be independently sold or licensed and thus require separate accounting include mortgage servicing rights, commodity supply contracts, core deposits, and customer information lists. Besides *business combinations*, the ASU also applies to *fresh start accounting* situations and to the *assessment of differences between the carrying amount of an investment and the underlying equity in an investee's net assets when applying the equity method of accounting*.

If a private company elects the ASU's accounting alternative, it must also elect (or have already elected) to adopt the alternative in ASU 2014-02, *Accounting for Goodwill*, which requires, among other things, the amortization of goodwill. However, private companies that elect or have elected to adopt the alternative in ASU 2014-02 are not required to adopt the alternative in ASU 2014-18.

If a private company chooses to elect the accounting alternative in ASU 2014-18, it must apply the guidance on the first occurrence (and on all subsequent occurrences in a fiscal year beginning after December 15, 2015.

Any noncompete or customer-related intangibles that exist as of the beginning of the period of adoption of this ASU must continue to be separately measured and accounted for; they cannot be absorbed into goodwill.

For more information on ASU 2014-18, refer to FASB in Focus, "Accounting Standards Update for Private Companies Accounting for Identifiable Intangible Assets in a Business Combination."

Source: Grant Thornton, On The Horizon, January 6, 2015

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Contact us

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