

THOUGHT LEADERSHIP FROM THE BDO NATIONAL ASSURANCE  
AND TAX PRACTICES

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## FASB



### SUBJECT

## FASB REMOVES EFFECTIVE DATES OF PRIVATE COMPANY ACCOUNTING ALTERNATIVES

### SUMMARY

The FASB recently issued ASU 2016-03<sup>1</sup> to remove the effective dates from the private company accounting alternatives for goodwill, intangible assets, consolidation, and derivatives and hedging. This allows private companies to elect the accounting alternatives at any time without a preferability assessment. The ASU also extends certain favorable transition provisions of the accounting alternatives. The ASU is available [here](#), and is effective immediately.

### DETAILS

#### *Main Provisions*

During 2014, the FASB provided four accounting alternatives for private companies,<sup>2</sup> intending to provide relief in areas where the costs of complying with existing U.S. GAAP may outweigh the related benefits to users of private company financial statements. The amendments in ASU 2016-03 make those alternatives effective immediately—and on an ongoing basis for first time adopters—by eliminating the effective dates of the following ASUs:

- ▶ ASU 2014-02, Intangibles - Goodwill and Other (Topic 350): Accounting for Goodwill
- ▶ ASU 2014-03, Derivatives and Hedging (Topic 815): Accounting for Certain Receive- Variable, Pay Fixed Interest Rate Swaps - Simplified Hedge Accounting Approach

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<sup>1</sup> *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), Consolidation (Topic 810), Derivatives and Hedging (Topic 815): Effective Date and Transition Guidance*

<sup>2</sup> Generally, a private company is an entity other than a public business entity, a not-for-profit entity, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting. Each private company accounting alternative establishes its own scope.

- ▶ ASU 2014-07, Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements
- ▶ ASU 2014-18, Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination

By removing the effective dates of the guidance above, ASU 2016-03 allows private companies to forgo a preferability assessment the first time they elect the accounting alternatives. However, any subsequent change to an accounting policy election would require justification that the change is preferable under Topic 250, *Accounting Changes and Error Corrections*.

In addition, the amendments extend the transition guidance in ASUs 2014-02, 2014-03, 2014-07, and 2014-18 indefinitely. As such, under ASU 2016-03 private companies may:

- ▶ Elect the goodwill accounting alternative as of the beginning of the first annual period it is elected for existing goodwill and prospectively for new goodwill.
- ▶ Elect the simplified hedge accounting approach to existing swaps upon initial election of the alternative using a modified retrospective approach or a full retrospective approach (however, the transition provisions do not apply to subsequent elections of the simplified hedge accounting approach).
- ▶ Elect the VIE exemption retrospectively for all periods presented. This transition method is unchanged from prior guidance.

Elect the option for intangible assets for the first eligible transaction that occurs in the annual reporting period it is adopted. This transition method is unchanged from prior guidance.

## EFFECTIVE DATE AND TRANSITION

The amendments became effective immediately upon issuance of the ASU.

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