

FASB Finalizes Effective Date Guidance for Private Companies

Private companies no longer need to worry about adopting a private company standard by its effective date. On March 7, 2016, the Financial Accounting Standards Board (FASB) issued [Accounting Standards Update \(ASU\) 2016-03, Intangibles—Goodwill and Other \(Topic 350\), Business Combinations \(Topic 805\), Consolidation \(Topic 810\), Derivatives and Hedging \(Topic 815\): Effective Date and Transition Guidance \(a consensus of the Private Company Council\)](#). The amendments, effective immediately, apply to all private companies within the scope of the following updates:

- ASU No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*
- ASU No. 2014-03, *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps*
- ASU No. 2014-07, *Consolidation (Topic 810): Applying Variable Interest Entities Guidance to Common Control Leasing Arrangements*
- ASU No. 2014-18, *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination*

ASU 2016-03 removes the effective dates of the standards listed above, which should relieve private companies' concerns about the required assessment of preferability when electing a private company alternative the first time after its effective date. Although private companies no longer are subject to the preferability assessment at initial adoption, any subsequent change to an accounting policy election requires justification that the change is preferable under Topic 250, *Accounting Changes and Error Corrections*.

The ASU allows a company to adopt a private company accounting alternative within the scope of the update at any time in the future, e.g., upon a change in circumstances or management's strategic plan or when learning about the accounting alternative at a later date, without having to justify preferability.

The amendments in ASU 2016-03 address another provision of Topic 250: the requirement to retrospectively apply a change in accounting principle, unless it's impractical to do so. The amendments in ASU 2016-03 indefinitely extend the transition guidance in private company alternatives (ASUs 2014-02, 2014-03, 2014-07 and 2014-18), increasing the appeal of adopting the goodwill alternative and the simplified hedge accounting approach.

With the elimination of effective dates and extension of the prospective transition guidance, private companies voluntarily electing to adopt ASU 2014-02 will prospectively apply the standard to existing goodwill as of the beginning of the fiscal year of adoption and new goodwill recognized thereafter. The transition exception for ASU 2014-03 extended by the amendments in this update allows private companies to apply the simplified hedge accounting approach to existing swaps upon initial election. However, after the initial election is made to apply the simplified hedge accounting approach to existing swaps, no further retrospective applications to existing swaps (full or modified) are permitted.

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