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The Financial Accounting Standards Board (FASB) has issued two updates to U.S. generally accepted accounting principles (GAAP) that provide alternatives for private companies on the subsequent accounting for goodwill and for interest rate swaps—specifically a simplified hedge accounting approach for certain types of swaps.

Both updates are consensuses of the Private Company Council (PCC) that were endorsed by the FASB. FASB Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, permits a private company to subsequently amortize goodwill on a straight-line basis over a period of ten years, or less if the company demonstrates that another useful life is more appropriate.

It also permits a private company to apply a simplified impairment model to goodwill. Goodwill is the residual asset recognized in a business combination after recognizing all other identifiable assets acquired and liabilities assumed.

FASB Accounting Standards Update No. 2014-03, *Derivatives and Hedging (Topic 815): Accounting for Certain Receive-Variable, Pay-Fixed Interest Rate Swaps—Simplified Hedge Accounting Approach*, gives private companies—other than financial institutions—the option to use a simplified hedge accounting approach to account for interest rate swaps that are entered into for the purpose of economically converting variable-rate interest payments to fixed-rate payments.

"These two accounting standards address issues that private company stakeholders have told us are priorities," said FASB Chairman Russell G. Golden. "Both standards address private company stakeholder concerns by reducing the cost and complexity



The combination of the amortization method and the relief from the requirement to test goodwill for impairment at least annually is expected to result in significant cost savings for many private companies that carry goodwill on their balance sheets. This is because amortization should reduce the likelihood of impairments, and private companies generally will test goodwill for impairment less frequently.

The FASB also recently decided to add a project to its agenda on the subsequent accounting for goodwill for public companies and not-for-profit organizations.

Under the accounting alternative provided for interest rate swaps, when a private company applies the simplified hedge accounting approach, the income statement charge for interest expense will be similar to the amount that would result if the company had directly entered into a fixed-rate borrowing instead of a variable-rate borrowing and an interest rate swap.

Furthermore, the simplified hedge accounting approach provides a practical expedient to measuring the fair value of swaps by allowing the use of settlement value, which removes the consideration of nonperformance risk.

The FASB did not extend this alternative to public companies and not-for-profit organizations at this time, but will consider the accounting for such swaps as part of its broader hedge accounting project.

More information on the standards, including a video and FASB In Focus, is available on the FASB website and on the PCC website.

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