



New Jersey Society of Certified Public Accountants

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August 19, 2013

Via email to director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update – Intangibles – Goodwill and Other (Topic 350)
Accounting for Goodwill, a proposal of the Private Company Council
File Reference No. PCC-10-01B

Dear Technical Director:

The Accounting and Auditing Standards Interest Group of the New Jersey Society of Certified Public Accountants (NJSCPA) is pleased to offer its comments on the above referenced proposed standard. The NJSCPA represents over 15,000 certified public accountants (CPAs) and prospective CPAs. The comments herein represent those of some of the individuals of our Accounting and Auditing Standards Interest Group only and do not necessarily reflect the views of all members of the NJSCPA.

We commend the Financial Accounting Standards Board and the Private Company Council (PCC) in their efforts to reduce the overall complexities of existing guidance for private companies. Our responses to the following specific questions are derived from individuals representing both auditors and accountants in industry.

Question 4: *Would the proposed amendments reduce overall costs and complexity compared with existing guidance? If not, please explain why.*

We agree that the proposed amendments would reduce the overall costs and complexity for private companies accounting for goodwill when compared with existing guidance. Currently an entity must determine on a reporting unit level the fair value of that reporting unit in order to assess that unit's goodwill for impairment. However, many private companies do not possess the knowledge, expertise and data disaggregation to perform this assessment. As such this leads to increased costs; complexities; and often the need to rely on external services. The proposed amendments would greatly reduce this burden.

Question 5: *Do you agree that the accounting alternative for goodwill would provide relevant and decision-useful information to users of private company financial statements? If not, what accounting alternative, if any, would provide relevant information to users?*

We agree that the proposed alternative would provide relevant and decision-useful information to the users. Management of many private companies currently exclude goodwill and their related

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impairment component from their internal analysis when measuring their company's operating performance, because they do not believe inclusion would accurately reflect the nature of their operations. Additionally, external users of a private entity's financial statements (i.e. banks) will generally discount any goodwill presented in the financial statements. By permitting the proposed alternative to amortize goodwill over its useful life users of the financial statements would be provided with the ability to directly correlate the benefit of the goodwill to the activities and assets upon which it was derived.

Question 6: *Do you agree with the PCC's decision to amortize goodwill on a straight-line basis over the life of the primary asset acquired in a business combination, not to exceed 10 years? If not, please tell us what alternative approach or useful life you would prefer?*

We agree with the PCC's decision to amortized goodwill on a straight-line basis, but recommend that the PCC reconsider the proposed useful life. We propose that goodwill be amortized on a straight-line basis over a period not to exceed 15 years. Many assets, both tangible and intangible, acquired in a business combination have useful lives that exceed 10 years and limiting the amortization period of goodwill to 10 years would not fully reflect the correlation between goodwill and the assets that generated that goodwill. Additionally, if the goal of this proposed accounting alternative for goodwill is to reduce costs and complexities for private companies, capping the useful life of goodwill, not to exceed 10 years would give rise to deferred tax considerations as prescribed under Topic 740. Current tax law amortizes goodwill over a period of 15 years and while we do not believe that accounting should be based on tax law, we do believe that the difference between the proposed 10 year useful life and the 15 year tax life would result in additional and unnecessary costs and complexities for private companies due to the creation of additional deferred tax considerations. Lastly, these additional deferred tax considerations would not provide benefits to the financial statement users versus the increased complexity and the cost of the additional work required.

Question 7: *Do you agree that goodwill accounted for under this alternative should be tested for impairment at the entity-wide level? If not, should an entity be either required or given an option to test goodwill at the reporting unit level? What issues, if any, arise from amortizing goodwill at the individual acquired goodwill level while testing for goodwill impairment at the entity-wide level?*

We agree that a private entity should be permitted to test goodwill for impairment at the entity-wide level. However, we believe this would cause a disconnection between the initial recognition at the reporting level (at acquisition) with related amortization and an impairment of goodwill recorded at the entity level. We believe the amortization of goodwill over its useful life would mitigate this. Additionally, a private entity may not necessarily have the ability or capacity to determine the fair value of the entity at any lower level unit than entity-wide. We do believe, however, that when allocating goodwill impairment to each individual unit of goodwill, there should be consideration in determining which unit of goodwill to impair, should that information be readily available.

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Question 8: *Do you agree that goodwill accounted for under this alternative should be tested for impairment only upon the occurrence of a triggering event that would indicate that the fair value of the entity may be below its carrying amount? If not, when should goodwill be tested for impairment? Should there be an annual requirement to test goodwill?*

We agree that the only time an evaluation for impairment is performed is when there is a triggering event that would indicate that the fair value of the entity may be below its carrying amount. When applying the accounting alternative for goodwill there should not be a need for an annual requirement to test goodwill for impairment. . The fact that goodwill is being amortized reduces its carrying value, thereby minimizing the risk of significant affects from moderate changes to the entity's business plan, economic environment or financial metrics. As such, only when a triggering effect occurs should an evaluation be performed.

Question 10: *Do you agree with the alternative one-step method of calculating goodwill impairment loss as the excess of the carrying amount of the entity over its fair value? Why or why not?*

We agree, with the alternative one-step method of calculating goodwill impairment loss, if performed upon the occurrence of a triggering event that would determine if there was impairment at the entity level. We believe this approach reduces the complexity and cost for private entities in determining the goodwill impairment as compared to the current guidance. Many private companies do not have the capacity to determine the fair value of each reporting unit within their operations and therefore permitting a private entity to assess impairment at the entity-wide level would simplify the assessment, while still provide enough relevant information to the users of the financial statements.

Question 12: *Do you agree that the proposed Update should be applied on a prospective basis for all existing goodwill and for all new goodwill generated in business combinations after the effective date? Should retrospective application be permitted?*

We agree that the proposed Update should be applied on a prospective basis for both new and existing goodwill as of the effective date. However, private companies should be permitted to retrospectively apply the proposed Update for all reporting periods presented, along with adequate disclosure describing the initial adoption.

Question 13: *Do you agree that goodwill existing as of the effective date should be amortized on a straight-line basis prospectively over its remaining useful life not to exceed 10 years (as determined on the basis of the useful life of the primary asset of the reporting unit to which goodwill is assigned) or 10 years if the remaining useful life cannot be reliably estimated? Why or why not?*

Goodwill existing as of the effective date should be amortized on a straight-line basis over its remaining useful life. However, we suggest there be more flexibility in determining what constitutes the remaining useful life of existing goodwill. Determining useful life for goodwill based on the category of primary assets, creates a level of complexity that is unnecessary,

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especially for previously acquired goodwill that may span a number of years in the past. Certain private companies may not have the level of detail in prior year data necessary to assign goodwill to one specific primary asset from a business combination. Additionally, private companies within certain industries, such as those that provide professional services, asset leasing, traders or similar companies with short term asset usage would either have difficulty in determining a useful life or could argue that the useful life of any of those assets is not reflective of their intention when acquiring the business. Under these examples, if goodwill were to be amortized over a period not to exceed 10 years, goodwill would not be reflective or useful to the users of the financial statements, as it would not represent the value perceived by or business life of the entity.

Therefore we do not believe that amortizing the existing goodwill over a period not to exceed 10 years would be reflective of the existing goodwill's remaining useful life. We suggest that when adopting the goodwill alternative, that a number of factors be considered on a systematic basis to determine the remaining useful life of the existing goodwill. We suggest that these factors include reviewing the useful life of the primary asset that generated the goodwill along with the private entity's business intention and use of the value remaining that was derived from the original business combination.

Question 14: *When should the alternative accounting method be effective? Should early application be permitted?*

The alternative accounting treatment should be effective for fiscal years ending on or after the issuance date of the Update, with early adoption permitted.

Question 17: *If an entity elects the accounting alternative in the amendments in this proposed Update, do you think that entity also should be required to apply the PCC's proposed accounting alternative for recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination (in Topic 805)? Alternatively, if an entity elects the accounting alternative in Topic 805, should that entity also be required to adopt the proposed accounting alternative? (No decisions have been reached by the Board and the PCC about this question.)*

We agree that private companies electing to apply the accounting alternative in this proposed Update should also be required to apply the proposed accounting alternative for recognition, measurement, and disclosure of identifiable intangible assets acquired in a business combination (in Topic 805). The required application of these two proposed alternatives would ensure greater consistency and comparability of a private entity's financial statements.

Thank you for the opportunity to comment. We are available to discuss our comments at your convenience.

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Respectfully submitted,

A handwritten signature in cursive script that reads "Renee Rampulla / ms".

Renee Rampulla, CPA, CGMA, Leader
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New Jersey Society of Certified Public Accountants

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