Private companies beware

The window to adopt new, simplified accounting practices is closing

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Recent and upcoming changes to Generally Accepted Accounting Principles (GAAP) can be seen as a matter of simplification. Companies should be aware of these beneficial modifications because the window to adopt them may only remain open for a short time.

"Broadly, the Financial Accounting Standards Board (FASB) is trying to make things easier for practitioners to prepare annual financial statements," says Ryan Siebel, a principal at Skoda Minotti. "It's removing the non-intuitive parts of GAAP and trying to get rid of margin and corner cases, making it easier to prepare statements — it's essentially less about reading the fine print and more about getting things right."

Smart Business spoke with Siebel about the changes and what companies need to know to stay current.

What changes do companies need to know about this year?

The FASB subsidiary, the Private Company Counsel (PCC), issued various standards that are all optional for private companies to choose. They're essentially shortcuts for annual year-end financial reporting.

The most notable changes effective for this year's financial reporting would be the three PCC standards issued last year that need to be adopted by the end of this year when companies release their 2015 financial statements. Companies can apply these simplification standards that cut out excess reporting that they've complained about.

Among those changes is the amortization of goodwill on a straight-line basis over 10 or fewer years that, in most cases, eliminates the need for the quantitative impairment test. Previously, companies had to go through rigorous scrutiny of goodwill to see if they needed to write it down or charge it off to earnings.

The other change affects companies that have a related party as their lessor. Under previous accounting guidance, companies had to consolidate the financial statements of that entity into the financial statements of the company. By adopting this PCC standard, companies may not have to present the financial statements of that leasing entity, only those of their own operating entity.

A third notable change relates to accounting for derivatives. For companies that have a swap agreement, this standard simplifies the steps needed to qualify for hedge accounting. It takes the effect of a swap out of the gain/loss calculation of current year earnings. It's a shortcut to getting favorable treatment.

What's coming in 2016?

Among the coming FASB changes is debt issuance cost. For companies that are issuing debt or are borrowing and have incurred cost to get debt, the new standards allow them to present that not as an asset but as a reduction to debt.

Another PCC standard that will need to be applied next year is for companies that acquired a business. There are certain intangible assets that no longer need to be recorded as part of an acquisition. Previously, if a company acquired a business, it needed to hire an expert to value the associated intangible assets, such as customer relationships and noncompete agreements. The new standard, if adopted, says companies don't have to separately value those kinds of soft intangibles.

Why should companies consider adopting these accounting changes?

In the accounting world, there is the concept of preferability that makes it harder to change accounting standards and principles on a whim. These PCC standards put an exception in that allows a company, for a limited time, to switch without scrutiny.

It's undesirable to be in a situation in which a company chooses not to adopt simply because they're unaware of them, then switches accountants and is told they missed their chance to amortize goodwill. Once that window closes, it's hard to change.

How can companies keep up with accounting changes?

Talk to an accountant. When there's a significant or interesting change to any of the accounting practices, they should be ready with an analysis explaining how it will affect the company. Many of the changes aren't applicable for all companies, so it's important to have someone who can cut through the noise and figure out which apply. ●