ACCOUNTING

Business combinations: Allocation of amounts to foreign subsidiaries

When an entity enters into a business combination affecting foreign subsidiaries, U.S. generally accepted accounting principles (GAAP) require the entity to allocate all applicable goodwill and related intangible assets to those foreign subsidiaries. This is particularly important when the subsidiaries have different functional currencies and (or) are in situations where there are significant deferred income taxes on the opening balance sheet with different jurisdictional effective tax rates. The allocation of applicable goodwill and related intangible assets to foreign subsidiaries is required regardless of whether the entity has elected the private-company goodwill accounting alternative because such allocation could affect the amount of initial goodwill that is recorded, as well as the entity’s future foreign currency translation gains (or losses), amortization and (or) impairment charges. When a foreign subsidiary is affected by an acquisition, the entity should discuss with its valuation specialist the need to allocate some portion of goodwill and intangible assets recorded in the accounting for the business combination to the foreign subsidiary irrespective of whether or not the entity elects to push down the allocated amounts to the foreign subsidiary’s local books. Often an allocation also is required for income tax purposes, which should be discussed with the entity’s tax specialist. If the allocation methods used for U.S. GAAP and tax purposes are different, the entity’s deferred income taxes will be affected.

Updated white paper: Revenue recognition in the technology industry

We have issued an updated version of our white paper, Changes to revenue recognition in the technology industry, to further assist entities in the technology industry in applying the new revenue recognition model in Topic 606, “Revenue from Contracts with Customers,” of the Financial Accounting Standards Board’s Accounting Standards Codification (ASC). The white paper has been updated for recent activities, including guidance issued by the American Institute of Certified Public Accountants Software Entities Revenue Recognition Task Force.

For more information regarding ASC 606, visit our Revenue Recognition Resource Center.
NCUA delays risk-based capital rules to 2022

On December 13, 2019, the National Credit Union Administration (NCUA) issued a final supplemental rule that delays the effective date of the risk-based capital rules from January 1, 2020 to January 1, 2022. The December 2019 final supplemental rule delays the effective date of the 2015 risk-based capital final rule and the related supplemental final rule approved in 2018. Such rules amended Part 702 of the current Prompt Corrective Action (PCA) regulations that require credit unions that take certain defined risks to hold capital commensurate with those risks. The risk-based capital rules created the risk-based capital ratio, which replaces the risk-based net worth ratio for credit unions that are classified as complex as of the effective date. A credit union is defined as complex if the credit union has quarter-end total assets exceeding $500 million as of its most recent call report.

During the extended delay period, the existing PCA requirements remain in effect.

PUBLIC SECTOR

GASB proposes implementation guidance

The Governmental Accounting Standards Board (GASB) recently issued an Exposure Draft, Implementation Guidance Update – 2020, to provide guidance that clarifies, explains or elaborates on recent GASB Statements. The proposed implementation guide addresses a wide array of practice issues, including questions related to the application of standards on the financial reporting entity, fiduciary activities, leases, external investment pools, certain asset retirement obligations, and conduit debt obligations, among others.

If finalized, the requirements of the proposed implementation guide generally will be effective for reporting periods beginning after June 15, 2020. The Exposure Draft is available for comment until January 31, 2020.