

1.3 -- Staff Accounting Notice 52-709 -- Income Statement Presentation of Goodwill Charges

Issue: February 18, 2000

Citation: 23 O.S.C.B. 1130

Purpose

The purpose of this Staff Notice is to set out staff's views with respect to the application of paragraphs 1580.82-.83 of the CICA Handbook ("the Handbook") to charges for amortization of goodwill associated with long-term investments accounted for using the equity method.

Issue

Paragraphs 1580.82-.83 of the Handbook allow goodwill amortization expense and goodwill impairment charges to be presented on a net-of-tax basis as a separate line item in the income statement, following a subtotal that is descriptive of the items that follow. Basic and fully-diluted per share amounts may also be presented for this subtotal.

The question has arisen as to whether it is appropriate, in accordance with paragraphs 1580.82-.83, to present charges for amortization of goodwill associated with long term investments accounted for using the equity method on a net of tax basis as part of an income statement line item for goodwill charges. Goodwill associated with long term investments accounted for using the equity method includes both (i) goodwill that is recorded within the financial statements of the investee itself, and (ii) goodwill notionally included in the carrying value of the investment as recorded by the investor.

Paragraph 3050.12 of the Handbook specifies that the application of the equity method of accounting results in the net income of the investor being the same as the consolidated net income would have been had the financial statements of the investee been consolidated with those of the investor. Paragraph 3050.09 of the Handbook lists the items recorded by an investee that should be disclosed in the investor's financial statements according to their nature. This paragraph does not contemplate that charges for amortization of goodwill would be presented separately in the investor's income statement. In Staff's view, charges for amortization of goodwill associated with long-term investments accounted for using the equity method of accounting therefore fall outside the scope of paragraphs 1580.82-.83 of the Handbook.

Staff's Views

In Staff's view, the presentation described in paragraphs 1580.82-.83 of the Handbook is permissible for only those charges for amortization of goodwill associated with business combinations accounted for using the purchase method, as defined in CICA 1580.07. This presentation is not available in respect of charges for amortization of goodwill associated with long-term investments accounted for using the equity method of accounting.