WHEN GOODWILL IS NOT GOODWILL – PRIMARY HEALTH CARE RESTATE THEIR FINANCIAL STATEMENTS

The Australian Securities and Investments Commission (ASIC) recently issued Media Release 15-028 which welcomed the decision by ASX-listed Primary Health Care Limited (Primary) to reduce goodwill previously recorded for payments it makes to general practitioners when joining its network of medical clinics under contract, generally for five years.

This restatement occurred in Primary's 31 December 2014 half-year financial statements and follows enquiries by ASIC into the appropriate accounting treatment for these business combinations of doctor's practices. The following adjustments were made:

- Goodwill reduced by $426 million
- Other intangible assets increased by $140 million
- Retained earnings reduced by $290 million
- Deferred tax assets reduced by $4 million.

The net reduction in equity of this restatement of $290 million is a drop in the ocean, with net equity remaining of $2.4 billion and goodwill still sitting at $2.9 billion.

However, the earnings impact is far more significant, with the comparative 31 December 2013 half-year period showing profit reducing 33 per cent from $75 million to $50 million.

In ASIC's view, the revised accounting treatment more appropriately reflects the substance of the transactions.

Should goodwill have been recognised in the first place?

ASIC's enquiries, and Primary's subsequent restatement, shows the start of a trend where ASIC appears not only to be paying attention to goodwill impairment as part of their financial reporting surveillance program, but is also now questioning where that goodwill came from.

Entities that have undertaken business combinations should ensure that a proper purchase price allocation is conducted to identify any identifiable intangible assets so that appropriate amortisation is recorded over the lives of customer contracts, customer relationships, etc.