

GOODWILL IMPAIRMENT (ASC 350-20) MADE SIMPLE

What's new?

In January 2017, the Financial Accounting Standards Board (FASB) released an update to ASC 350 (Intangibles – Goodwill & Other). This update now allows public business entities and not-for profits entities to apply the same accounting treatment as private companies which was amended in 2014. The main change to this amendment is the elimination of Step 2 from the goodwill impairment test if the qualitative factors do not suggest impairment. The following are the key changes:

Pre-2017	2017 Update
Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. This would include determining the fair value at the impairment testing date of its assets & liabilities (including unrecognized assets and liabilities). This also applied to reporting units with zero or negative carrying amounts.	The loss should not exceed the total amount of goodwill allocated to that reporting unit.
Divergence with IAS 36, Impairment of Assets.	More convergence with IAS 36, a one-step method.
Deferred income taxes were not included in an assumed taxable transaction, only if considered nontaxable.	Deferred income taxes are to be included in the carrying amount of a reporting unit if a taxable or nontaxable transaction.
The effect of foreign currency translation was an allocation of the cumulative translation adjustment to the reporting unit.	The effect of foreign currency translation is determined based on the assets and liabilities assigned to that reporting unit.

When Will This Be Implemented?

- **January 1, 2017**
Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.
- **December 15, 2019**
For a public business entity that is a U.S. SEC filer
- **December 15, 2020**
For a public business entity that is not a SEC filer
- **December 15, 2021**
All other entities, including not-for-profit entities

Subsequent Measurement: Recognition and Measurement of an Impairment Loss

This update is intended to simplify the subsequent measurement of goodwill. The process to evaluate impairment is as follows:

1. An entity may first assess qualitative factors (see events and circumstances below) to determine whether it is necessary to perform the quantitative goodwill impairment test.
2. If the quantitative test is necessary, this test shall be used to identify goodwill impairment and measure the amount of goodwill impairment loss to be recognized (if any).

The Qualitative Assessment

(To see if the Quantitative Is Necessary)

The qualitative assessments are done to determine whether it is **more likely than not** that the fair value of a reporting unit is less than its carrying amount, including goodwill. This can be bypassed to go directly to the **quantitative** goodwill impairment test. The Entity can resume the qualitative assessment in any subsequent period. The following are types of qualitative events circumstances to consider (not all inclusive):

- Macroeconomic conditions (access to capital; FX rate changes)
- Industry & market considerations (competition; reduced demand)
- Cost factors (increases in raw materials/labor)
- Macroeconomic conditions (access to capital; FX rate changes)
- Overall financial performance
- Entity specific events (change in management; contemplation of bankruptcy)
- Events affecting a reporting unit
- A sustained decrease in share price

If, after assessing the totality of events or circumstances, an entity determines that it is:

- **Not** more likely than not that the fair value of a reporting unit is less than its carrying amount. Then the quantitative goodwill impairment test is unnecessary.
- More likely than not that the fair value of a reporting unit is less than its carrying amount. Then the entity shall perform the quantitative goodwill impairment test.

The Quantitative Assessment

(Once Deemed Necessary)

Quantitative Impairment Test Step 1

The quantitative goodwill impairment test, used to identify both the existence of potential impairment and the amount of impairment loss, compares the fair value of a reporting unit with its carrying amount, including goodwill.

Fair Value > Carrying amount (including deferred income tax) ≠ Impairment

Carrying amount (including deferred income tax) > Fair Value ≠ Impairment

Quantitative Impairment Test Step 2 - Eliminated

Example:

Carrying Amt:	\$90
Fair Value:	\$80
Impairment Loss:	(\$10)
Goodwill:	\$40

No more implied fair value calculation, loss will not exceed \$40 of goodwill.

What does this mean for Internal Audit?

- Implementation date is to be decided.
- If step 2 is eliminated, control procedures may require updating.
- Testing should be conducted at a minimum annually.
- Testing should be conducted if a triggering event occurs.
- The adoption of this update is to be disclosed in the first annual reporting period of adoption.
- Entities with one or more reporting units with zero carrying amount or negative carry amounts must disclose those reporting units, along with the goodwill allocated to each reporting units and in which reportable segment the reporting unit is included.