KNOW GREATER VALUE™

PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Accounting & Auditing Update

FASB Simplifies Measurement of Goodwill Impairment

By John M. Haslbauer, CPA, Partner

Intangibles — Goodwill and Other (Topic 350), Accounting Standards Update (ASU) 2017-04, ***Simplifying the Test for Goodwill Impairment*** was recently issued by the Financial Accounting Standards Board (FASB or the Board). For entities that have not adopted the Private Company Council (PCC) accounting alternative, it eliminates step 2 of the goodwill impairment test which had required a hypothetical purchase price allocation.

Under the new guidance, goodwill impairment will now require only a one-step approach and be equal to the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.

Current Guidance

Under the current guidance, a private company that elects the PCC accounting alternative, amortizes goodwill and performs a one-step impairment test at either the entity level or the reporting unit level, only when an event or circumstance indicates that the fair value of the entity (or reporting unit) may be less than its carrying amount. An impairment is recognized for the difference between the fair value of the entity (or reporting unit) and its carrying amount. The amount of the charge is limited to the entity's (or reporting unit's) carrying amount of goodwill.

Entities that have not adopted the PCC accounting alternative are required to perform a two-step goodwill impairment test, whereby step 1 requires an entity to compare the fair value of a reporting unit with its carrying value to determine if an impairment exists. If the carrying amount exceeds the fair value of the reporting unit, an entity would then perform step 2 of the impairment test by determining the implied fair value of goodwill using a hypothetical purchase price allocation. If such implied value is less than the carrying value, an impairment charge would be required for that amount.

Reporting Units with Zero or Negative Carrying Amounts

The new ASU also eliminates the requirement for reporting units with a zero or negative carrying amount to perform a qualitative assessment, and if it failed that assessment, to perform the step 2 impairment test. However, reporting units with zero or negative carrying values will be required to disclose the amount of goodwill in those reporting units.

Potential Result of One-Step Impairment Test

The FASB acknowledges that calculating impairment using only a one-step approach by comparing the carrying amount of a reporting unit with its fair value may result in a less precise amount of goodwill impairment. However, many financial statement users have indicated that the most useful information is knowing whether an impairment charge is warranted, not the precise amount of that impairment. Depending on specific circumstances, the new ASU may result in more impairment loss in some cases and less in other cases.

Effective Dates

For a public business entity that is a U.S. Securities and Exchange Commission (SEC) filer: effective for fiscal years beginning after December 15, 2019.

For a public business entity that is not an SEC filer: effective for fiscal years beginning after December 15, 2020.

For all other entities (including non-profit entities) that have not elected the PCC goodwill alternative: effective for fiscal years beginning after December 15, 2021.

Early adoption for all entities is permitted for any impairment tests performed after January 1, 2017.

Contact Us

For more information on the measurement of goodwill impairment, please contact John Haslbauer, CPA, Partner at jhaslbauer@pkfod.com or your PKF O'Connor Davies' advisor.