FEBRUARY 2017
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AN ALERT FROM THE BDO NATIONAL ASSURANCE PRACTICE

BDO **FLASH** REPORT
FASB

SUBJECT
FASB SIMPLIFIES GOODWILL IMPAIRMENT TEST

SUMMARY
The FASB recently issued ASU 2017-04[1] to simplify how all entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The ASU has staggered effective dates beginning in 2020 and is available here.

DETAILS

Background
Currently Topic 350[2] requires a two-step assessment to determine whether goodwill is impaired. The first step requires an entity to compare each reporting unit's carrying value, including goodwill, and its fair value. If the carrying value exceeds the fair value, then the entity must perform the second step, which is to compare the implied fair value of goodwill to its carrying value, and record an impairment charge for any excess of carrying value over implied fair value. An entity also has the option to perform a qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Further, private companies can elect to apply ASU 2014-02,[3] which provides a simpler and less costly alternative for the subsequent measurement of goodwill.

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[1] Simplifying the Test for Goodwill Impairment
[2] Intangibles—Goodwill and Other
[3] Accounting for Goodwill (a consensus of the Private Company Council)

Main Provisions

The primary goal of ASU 2017-04 is to simplify the goodwill impairment test and provide cost savings for all entities. This is accomplished by removing the requirement to determine the fair value of individual assets and liabilities in order to calculate a reporting unit's "implied" goodwill under current GAAP.

Specifically**,** the amendments in ASU 2017-04 eliminate Step 2 of the goodwill impairment test. As such, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the reporting unit's carrying amount exceeds its fair value. If fair value exceeds the carrying amount, no impairment should be recorded. Any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Impairment losses on goodwill cannot be reversed once recognized.

When measuring a goodwill impairment loss, an entity should consider the income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit. The ASU contains an illustration of the simultaneous equations method to demonstrate this, which reflects a deferred tax benefit from reducing the carrying amount of tax-deductible goodwill relative to the tax basis.

An entity may still perform the optional qualitative assessment for a reporting unit to determine if it is more likely than not that goodwill is impaired. However, the ASU eliminates the requirement to perform a qualitative assessment for any reporting unit with zero or negative carrying amount. Therefore, the same one-step impairment assessment will apply to all reporting units. However, for a reporting unit with a zero or negative carrying amount, the ASU adds a requirement to disclose the amount of goodwill allocated to it and the reportable segment in which it is included.

BDO Observation: The ASU does not eliminate the private company accounting alternative provided in ASU 2014-02. That is, private companies still have the option to elect to amortize goodwill, and to test goodwill for impairment when a triggering event occurs using a simplified one-step test. Private companies that have already elected such a policy can voluntarily adopt the guidance in the ASU, which would result in no longer amortizing goodwill and reinstating an annual impairment test performed pursuant to the guidance in the ASU.

However, private companies that have elected to subsume certain intangible assets into goodwill under ASU 2014-18[4] and are therefore required to amortize goodwill must demonstrate preferability prior to adopting ASU 2017-04. Paragraph 350-20-65-3 provides specific transition guidance applicable to private entities.

[4] Accounting for Identifiable Intangible Assets in a Business Combination (a consensus of the Private Company Council)

EFFECTIVE DATE AND TRANSITION

The amendments have staggered effective dates as follows:

- A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019.
- A public business entity that is not an SEC filer should adopt the amendments for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020.
- All other entities, including not-for-profit entities, should adopt the amendments for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021.

The amendments should be adopted prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.