INTRODUCTION

Guidance related to assessing and recording impairment of assets is found in IAS 36, *Impairment of Assets* and in IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* for entities complying with international accounting standards, and in ASC 350, *Intangibles – Goodwill and Other* and ASC 360, *Property, Plant and Equipment* for entities complying with US accounting standards. Below is a comparison of the impairment models under the US GAAP and IFRS standards related to goodwill, indefinite-lived intangible assets and tangible and finite-lived intangible assets.

<table>
<thead>
<tr>
<th>US GAAP</th>
<th>IFRS¹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goodwill²</strong></td>
<td><strong>Goodwill</strong></td>
</tr>
<tr>
<td>Goodwill is allocated to reporting units (&quot;RU&quot;)</td>
<td>Goodwill is allocated to cash generating units (&quot;CGU&quot;)</td>
</tr>
<tr>
<td>A RU is the same as an operating segment or one level below (i.e., a component)</td>
<td>A CGU is the smallest group of assets that generates independent cash flows and is not larger than an operating segment</td>
</tr>
<tr>
<td>Goodwill is not permitted to be amortized, unless the private company alternative discussed below is elected</td>
<td>Goodwill is not permitted to be amortized</td>
</tr>
<tr>
<td>Goodwill must be tested for impairment at least annually</td>
<td>All goodwill must be tested for impairment at least annually</td>
</tr>
<tr>
<td>Goodwill is tested more frequently than annually if events or circumstances indicate an impairment may have occurred</td>
<td>Goodwill is tested more frequently than annually if indicators of impairment exist. The indicators are similar to US GAAP, but not identical. For example, IFRS considers an increase in market rates that is likely to impact discount rates as a potential indicator of impairment while US GAAP does not.</td>
</tr>
</tbody>
</table>

¹ The guidance for international standards only covers IFRS as issued by the IASB and does not include IFRS for SMEs or any jurisdictional versions of IFRS.

² This document assumes the adoption of ASU 2017-04 – Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment
The annual impairment test may be either a quantitative or a qualitative test. Entities can choose to use a qualitative test for some RU and not for others and the policy does not need to be consistently applied.

If an entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of a RU is less than the carrying value it must perform a quantitative test to measure the amount of impairment. Otherwise the entity does not need to perform a quantitative test.

The quantitative test compares the fair value of a RU to the carrying value. If the carrying value exceeds the fair value the excess is recorded as a loss, limited to the total amount of goodwill (see below for testing of other assets in RU.) If the fair value exceeds the carrying value, the goodwill is not impaired.

**Private Company Goodwill Alternative**

Under the goodwill alternative, private companies and not-for-profit entities can elect to amortize goodwill on a straight-line basis over 10 years (or over a shorter period if the entity demonstrates that another life is more appropriate). Entities that elect this alternative are required to test goodwill for impairment upon the occurrence of a triggering event. Further, under this alternative, entities may elect to perform the impairment test at the entity-wide level or at the reporting unit level.
<table>
<thead>
<tr>
<th>US GAAP</th>
<th>IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Indefinite-Lived Intangible Assets</strong></td>
<td><strong>Indefinite-Lived Intangible Assets</strong></td>
</tr>
<tr>
<td>An indefinite-lived intangible asset is tested annually for impairment or more frequently if events or circumstances indicate an impairment may have occurred.</td>
<td>An indefinite-lived intangible asset is tested annually for impairment or more frequently if indicators of impairment exist.</td>
</tr>
<tr>
<td>Acquired research and development intangible assets are considered indefinite-lived until completion or abandonment of research and development activities.</td>
<td>An intangible asset not yet available for use is tested for impairment in the same manner as an indefinite-lived intangible asset until it is available for use.</td>
</tr>
<tr>
<td>The annual impairment test for an indefinite-lived intangible asset may be either a qualitative or quantitative test.</td>
<td>The annual impairment test for an indefinite-lived intangible asset must be a quantitative test.</td>
</tr>
<tr>
<td>If an entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than the carrying value, it must perform a quantitative test to measure the amount of impairment. Otherwise, the entity does not need to perform a quantitative test.</td>
<td>The impairment test compares the carrying amount to the recoverable amount (defined above). If the carrying amount exceeds the recoverable amount, then an impairment loss is recorded.</td>
</tr>
<tr>
<td>The quantitative impairment test compares the fair value of the asset with the carrying amount. If the carrying amount exceeds the fair value, then an impairment loss equal to that excess is recorded.</td>
<td>The recoverable amount is determined for an individual asset unless the asset does not generate cash flows that are largely independent of other assets or asset groups in which case the recoverable amount is determined at the CGU level. An impairment determined at the CGU level is first allocated to any goodwill in the CGU and then to other assets in the CGU pro rata on the basis of their carrying amount limited to the higher of fair value less costs of disposal, value in use, or zero for the individual assets.</td>
</tr>
<tr>
<td>Indefinite-lived intangible assets are generally assessed for impairment individually. Separate indefinite-lived intangible assets can only be combined for purposes of the impairment test if they essentially operate as a single asset and are essentially inseparable. Indefinite-lived intangible assets cannot be combined with goodwill or finite-lived assets for impairment testing.</td>
<td></td>
</tr>
</tbody>
</table>
US GAAP

Tangible and Finite-Lived Intangible Assets – held and used

Tangible and finite-lived intangible assets are tested at the asset group level. An asset group is the lowest level for which identifiable cash flows are largely independent.

Tangible and finite-lived intangible assets are tested for impairment if events or circumstances indicate the carrying amount of the asset group may not be recoverable. The test is a two-step quantitative test

Step 1
An impairment loss on a tangible or finite-lived intangible asset is recognized if the carrying amount of the asset group is not recoverable and exceeds its fair value. The carrying amount is considered not recoverable if the sum of the undiscounted cash flows to be generated from the use and eventual disposition of the asset group is less than the carrying amount.

Step 2
If the carrying amount exceeds the undiscounted cash flows, then the carrying amount is compared to the fair value and an impairment loss is recorded for the difference between the fair value and the carrying amount.

An impairment loss only reduces the carrying amount of the long-lived assets in the asset group and it is allocated on a pro rata basis, except that the loss allocated to an individual long-lived asset shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort.

Corporate Assets

Corporate assets such as a corporate headquarters facility may not have identifiable cash flows that are largely independent of cash flows of other assets or asset groups. In those limited circumstances, the asset may be tested for impairment at the entity level.

IFRS

Tangible and Finite-Lived Intangible Assets – held and used

Tangible and finite-lived intangible assets are tested at the individual asset level unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In that case, the test is carried out at the CGU level based on the same criteria for indefinite-lived intangible assets (see above)

Tangible and finite-lived intangible assets are tested for impairment when indicators of impairment exist

An entity should assess whether there is an indication that an asset may be impaired at the end of each reporting period. If an indicator exists, the entity needs to estimate the recoverable amount of the asset

The test is a one-step quantitative test, similar to indefinite-lived intangible assets (see above)

Corporate Assets

Corporate assets include assets such as a head office, which do not themselves generate independent cash flows and whose carrying amount typically cannot be fully attributed to a CGU. If there is an indication that a corporate asset is impaired, its recoverable amount is determined by including it in the CGU or group of CGUs to which it relates.
US GAAP

Order of Impairment Testing – held and used

- First, test other assets (such as accounts receivable and inventory) under applicable guidance and indefinite-lived intangibles.
- Second, test long-lived assets (including tangible and finite-lived intangible assets)
- Third, test goodwill.

Reversal of Impairment

Reversal of impairment is not permitted

Tangible and Finite-Lived Intangible Assets – held for sale

A long-lived asset or disposal group that meets the held-for-sale criteria should be reported at the lower of its carrying amount or fair value less cost to sell. Any subsequent increase in the disposal group’s fair value, less cost to sell, should be recognized, but not in excess of the cumulative loss previously recognized. Once classified as held for sale, depreciation and amortization should not be recorded.

Order of Impairment Testing – held for sale

- First, test other assets (such as accounts receivable and inventory) under applicable guidance
- Second, test indefinite lived assets and goodwill
- Third, test the disposal group for impairment.

IFRS

Order of Impairment Testing – held and used

Impairment testing starts at the lowest level. If possible, assets are tested individually. If not, they are tested at CGU level. If goodwill relates to a CGU but has not been allocated to the CGU, then the CGU is tested excluding goodwill. CGUs to which goodwill has been allocated (or the smallest group of CGUs to which goodwill or a corporate asset has been allocated) are then tested.

Reversal of Impairment

Impairment of assets other than goodwill may be reversed. At each reporting period an entity needs to assess whether there are indications that an impairment, recognized in a prior period, may not still exist or may not exist at the amount previously recorded. If the impairment has decreased or no longer exists, based on the current recoverable amount, then the impairment is required to be fully or partially reversed and the reversal recognized in income or loss for the period

Non-Current Assets – held for sale

A non-current asset or disposal group that meets the held for sale recognition criteria should be measured at the lower of its carrying amount or fair value less costs to sell. Any subsequent increase in the disposal group’s fair value less cost to sell should be recognized in profit or loss up to the cumulative impairment losses that have previously been recognized. Assets classified as held for sale are not amortized or depreciated.

The above discussion covers the more significant differences between US GAAP and IFRS related to the impairment of goodwill, indefinite-lived intangible assets and other long-lived assets, it is not intended to be a replacement for the review of the specific accounting literature applicable to impairment of long-lived assets or consultation with professional advisors.
BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, and advisory services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 65 offices and over 700 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 88,000 people working out of more than 1,800 offices across 167 countries and territories.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your needs.

© 2020 BDO USA, LLP. All rights reserved.

Contact Us

For more information or any questions you may have please contact those listed below or your local BDO service provider:

WENDY HAMBLETON
National Assurance Partner
312-616-4657 / whambleton@bdo.com

NATTALY JETER
National Assurance Director
702-726-3284 / njeter@bdo.com

ANDREW MOORE
National Assurance Senior Manager
312-616-4664 / asmoore@bdo.com