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FASB FLASH REPORT

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Accounting Alternative for Private Entities in Evaluating Triggering Events for Goodwill Impairment

Summary: The FASB issued ASU 2021-03[1] ("ASU") to provide private companies and not-for-profit entities ("NFPs") with an accounting alternative to evaluate triggering events for goodwill impairment only as of the end of each reporting period, whether they report on an interim or annual basis.

BACKGROUND

ASC 350-20[2] currently requires an entity to monitor and evaluate goodwill impairment triggering events throughout the fiscal year. The triggering event analysis and potential goodwill impairment tests are required to be performed on the date that a triggering event occurs without the use of hindsight or known changes to facts and circumstances after the triggering event date.

Stakeholders raised concerns with the FASB about the cost and complexity associated with evaluating triggering events and potentially measuring a goodwill impairment during the reporting period, rather than aligning the evaluation date with the end of the reporting period. In particular, the issue had become exacerbated during the COVID-19 pandemic, which resulted in economic uncertainty and significant changes in facts and circumstances throughout 2020. Accordingly, the board concluded that evaluating goodwill impairment on the date that a triggering event occurs may not provide users of private company financial statements with useful information as the circumstances that led to the triggering event may no longer exist at the end of the reporting period.

The ASU addresses these concerns by providing an accounting alternative for private companies and NFPs in evaluating triggering events for goodwill impairment. The final ASU is available **here**.

1 Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events.

2 Intangibles—Goodwill and Other—Goodwill.

MAIN PROVISIONS

- As an accounting alternative, private companies and NFPs may choose an accounting policy election to perform goodwill impairment triggering event evaluations only as of the end of each reporting period, whether the reporting period is an interim or annual period.

  The accounting alternative applies to goodwill subsequently accounted for in accordance with ASC 350-20 and is available regardless of whether the entity also elected the accounting alternative for amortizing goodwill. To clarify, an entity is neither required nor precluded from electing both accounting alternatives.

  The accounting alternative applies to goodwill that is recognized in a business combination, in applying pushdown accounting under ASC 805-50, and in applying "fresh-start" reporting under ASC 852. Amounts recognized as goodwill in applying the equity method of accounting are not in the scope of this alternative.

- Entities that elect the triggering event accounting alternative should perform the evaluation as follows:
  - For an entity that has elected the accounting alternative for amortizing goodwill, the evaluation shall be performed only as of each reporting date.
  - For an entity that has not elected the accounting alternative for amortizing goodwill:
    1. If the entity performs its annual goodwill impairment test as of the end of the reporting period, it should not evaluate its goodwill for impairment during that reporting period.
    2. If the entity performs its annual goodwill impairment test on a date other than the end of the reporting period, the entity's evaluation of whether a triggering event has occurred during that reporting period should be performed only as of the end of the reporting period.

- Entities that elect this accounting alternative should disclose its use as a significant accounting policy in accordance with ASC 235-10-50-1.

BDO Observation for private companies contemplating an IPO or a merger with a public company: Private companies that become Public Business Entities are required to reverse the effect of any private company accounting alternatives recognized in their historical financial statements. In this case, it would result in the need to go back to the date of adoption of the accounting alternative and evaluate (without hindsight) whether there were interim triggering events that would have resulted in a goodwill impairment during any of the interim periods. Companies contemplating an IPO or being acquired by a public company, including a Special Purpose Acquisition Company ("SPAC"), should consider the considerable amount of time needed for this evaluation and the potential future costs before electing to use the accounting alternative.

- The accounting alternative does not affect the following:
  - The requirement to assess other assets for impairment (for example, long-lived assets and indefinite lived intangibles) under existing guidance. If an impairment test related to other assets would have resulted in a goodwill impairment triggering event, an entity electing the accounting alternative would consider the results of an impairment test related to other assets in connection with its goodwill impairment test only as of its annual goodwill impairment testing date and the reporting date (whether that date is an interim or annual reporting date), as applicable.
  - The requirements to test the remaining goodwill for impairment if only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of in accordance with paragraph 350-20-40-7.

BDO Observation: The FASB considered expanding the scope of the accounting alternative to other asset classes. However, the Board determined that PP&E and intangible assets other than goodwill are more relevant to the financial statement users. In addition, such assets are generally easier to test for impairment than goodwill. Therefore, the Board explicitly prohibited analogizing to this ASU for long-lived assets and other intangibles.[3]

3 See paragraph BC36 of the basis for conclusions.

EFFECTIVE DATES AND TRANSITION:

The amendments are effective prospectively for annual periods beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. An entity shall not retroactively adopt the amendments for interim periods already issued in the year of adoption.

For entities that adopt the amendments after the original effective date, the amendments should be applied prospectively as of the beginning of the first reporting period in which the accounting alternative is adopted.

Entities that make an accounting policy election to apply the amendments for the first time are not required to justify that the use of the accounting alternative is preferable under ASC 250-10-45-2.

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