Financial reporting developments

A comprehensive guide

Intangibles — goodwill and other

June 2024

EY

Building a better working world

To our clients and other friends

Accounting for goodwill and intangible assets can involve various financial reporting issues, including determining the useful life and unit of accounting for intangible assets, identifying reporting units and performing impairment evaluations.

We are providing this Financial reporting developments (FRD) publication to help you identify and understand the issues related to the accounting for goodwill and other intangible assets. This publication includes excerpts from and references to the Accounting Standards Codification (ASC or Codification) issued by the Financial Accounting Standards Board (FASB or Board), interpretive guidance and examples.

This FRD publication is updated to reflect the issuance of Accounting Standards Update (ASU) 2023-08, *Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60)*: *Accounting for and Disclosure of Crypto Assets*, which provides guidance on the subsequent measurement, presentation and disclosure of certain crypto assets. ASC 350-60 applies to all entities.

Refer to Appendix E for a list of all updates.

We are available to answer your questions and discuss any concerns you may have.

June 2024

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Notice to readers:

This publication includes excerpts from and references to the Financial Accounting Standards Board (FASB or Board) Accounting Standards Codification (Codification or ASC). The Codification uses a hierarchy that includes Topics, Subtopics, Sections and Paragraphs. Each Topic includes an Overall Subtopic that generally includes pervasive guidance for the Topic and additional Subtopics, as needed, with incremental or unique guidance. Each Subtopic includes Sections that in turn include numbered Paragraphs. Thus, a Codification reference includes the Topic (XXX), Subtopic (YY), Section (ZZ) and Paragraph (PP).

Throughout this publication references to guidance in the Codification are shown using these reference numbers. References are also made to certain pre-Codification standards (and specific sections or paragraphs of pre-Codification standards) in situations in which the content being discussed is excluded from the Codification.

This publication has been carefully prepared, but it necessarily contains information in summary form and is therefore intended for general guidance only; it is not intended to be a substitute for detailed research or the exercise of professional judgment. The information presented in this publication should not be construed as legal, tax, accounting, or any other professional advice or service. Ernst & Young LLP can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. You should consult with Ernst & Young LLP or other professional advisors familiar with your particular factual situation for advice concerning specific audit, tax or other matters before making any decisions.

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1 General provisions

1.1 Scope

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Overall

Overview and Background

350-10-05-1

The Intangibles—Goodwill and Other Topic provides guidance on financial accounting and reporting related to **goodwill** and other **intangible assets**, including the subsequent measurement of goodwill and intangible assets. It does not include guidance on the accounting at acquisition for goodwill and intangible assets acquired in a business combination or in an **acquisition by a not-for-profit entity**.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-10-05-1

The Intangibles—Goodwill and Other Topic provides guidance on financial accounting and reporting related to **goodwill** and other **intangible assets**, including the subsequent measurement of goodwill and intangible assets. It does not include guidance on the accounting at acquisition for goodwill and intangible assets acquired in a business combination or in an **acquisition by a not-for-profit entity**. It also does not include guidance on the accounting upon formation for goodwill and intangible assets recognized by a **joint venture**.

Scope and Scope Exceptions

350-10-15-2

The guidance in the Intangibles—Goodwill and Other Topic applies to all entities, including business entities, **mutual entities**, and **not-for-profit entities** (NFPs).

Intangibles — Goodwill and Other — Goodwill

Overview and Background

350-20-05-1

This Subtopic addresses financial accounting and reporting for **goodwill** subsequent to its acquisition and for the cost of internally developing goodwill.

350-20-05-2

Subtopic 805-30 provides guidance on recognition and initial measurement of goodwill acquired in a business combination. Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an **acquisition by a not-for-profit entity**.

350-20-05-4

The guidance in this Subtopic is presented in the following two Subsections:

a. General

b. Accounting Alternatives.

350-20-05-4A

Costs of developing, maintaining, or restoring internally generated goodwill should not be capitalized. For entities that do not elect the accounting alternative for amortizing goodwill included in the guidance in the Subsections outlined in paragraph 350-20-05-5A, goodwill that is recognized under the business combination guidance in Topic 805 and Subtopic 958-805 should not be amortized. Instead, it should be tested for impairment at least annually in accordance with paragraphs 350-20-35-28 through 35-32. If the accounting alternative for a goodwill impairment triggering event evaluation is elected, a goodwill impairment triggering event shall be evaluated in accordance with paragraphs 350-20-35-83 through 35-86.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

Intangibles — Goodwill and Other — Goodwill

Overview and Background

350-20-05-2

Subtopic 805-30 provides guidance on recognition and initial measurement of goodwill acquired in a business combination. Subtopic 958-805 provides guidance on recognition and initial measurement of goodwill acquired in an **acquisition by a not-for-profit entity**. Subtopic 805-60 provides guidance on the recognition and initial measurement of goodwill by a **joint venture** upon formation.

350-20-05-4A

Costs of developing, maintaining, or restoring internally generated goodwill should not be capitalized. For entities that do not elect the accounting alternative for amortizing goodwill included in the guidance in the Subsections outlined in paragraph 350-20-05-5A, goodwill that is recognized under the business combination guidance in Topic 805 and Subtopic 958-805 and goodwill that is recognized under the joint venture formation guidance in Subtopic 805-60 should not be amortized. Instead, it should be tested for impairment at least annually in accordance with paragraphs 350-20-35-28 through 35-32. If the accounting alternative for a goodwill impairment triggering event evaluation is elected, a goodwill impairment triggering event shall be evaluated in accordance with paragraphs 350-20-35-83 through 35-86.

350-20-05-4B

This Subtopic also includes guidance on the following:

a. How an entity should derecognize goodwill when it disposes of all or a portion of a reporting unit

b. How goodwill should be presented in the balance sheet

c. How impairment losses should be presented in the income statement

d. What disclosures about goodwill and related impairment considerations should be made in the notes to the financial statements.

Scope and Scope Exceptions

350-20-15-2

The guidance in this Subtopic applies to the following transactions and activities:

a. **Goodwill** that an entity recognizes in accordance with Subtopic 805-30 or Subtopic 958-805 after it has been initially recognized and measured

b. The costs of internally developing goodwill and other unidentifiable intangible assets with indeterminate lives

c. Subparagraph not used.

d. Amounts recognized as goodwill in applying the equity method of accounting and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852.

e. Subparagraph not used.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-20-15-2

The guidance in this Subtopic applies to the following transactions and activities:

a. **Goodwill** that an entity recognizes in accordance with Subtopic 805-30, Subtopic 805-60, or Subtopic 958-805 after it has been initially recognized and measured

b. The costs of internally developing goodwill and other unidentifiable intangible assets with indeterminate lives

c. Subparagraph not used.

d. Amounts recognized as goodwill in applying the equity method of accounting and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852.

e. Subparagraph not used.

350-20-15-3

Although goodwill is an intangible asset, the term intangible asset is used in this Subtopic to refer to an intangible asset other than goodwill.

Recognition

350-20-25-2

The excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852 shall be reported as goodwill and accounted for in the same manner as goodwill.

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Overview and Background

350-30-05-1

This Subtopic addresses financial accounting and reporting for **intangible assets** (other than **goodwill**) acquired individually or with a group of other assets and for the cost of developing, maintaining, or restoring internally generated intangible assets. However, it does not discuss the recognition and initial measurement of intangible assets acquired in a business combination or in an **acquisition by a not-for-profit entity**. This Subtopic also addresses financial accounting and reporting for intangible assets after their acquisition, including intangible assets acquired in a business combination or an acquisition by a not-for-profit entity.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-30-05-1

This Subtopic addresses financial accounting and reporting for **intangible assets** (other than **goodwill**) acquired individually or with a group of other assets and for the cost of developing, maintaining, or restoring internally generated intangible assets. However, it does not discuss the recognition and initial measurement

of intangible assets acquired in a business combination, acquired in an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation. This Subtopic also addresses financial accounting and reporting for intangible assets after their acquisition, including intangible assets acquired in a business combination, in an acquisition by a not-for-profit entity, or by a joint venture upon formation.

350-30-05-3

Intangible assets acquired individually or with a group of other assets should be recognized as assets in accordance with Section 350-30-25. Costs of developing internally generated intangible assets should be accounted for in accordance with paragraph 350-30-25-3.

350-30-05-4

The accounting for an intangible asset after acquisition depends on its useful life. If that life is indefinite, the intangible asset should not be amortized but should be tested for impairment at least annually in accordance with paragraphs 350-30-35-15 through 35-20. If that life is finite, the intangible asset should be amortized in accordance with paragraphs 350-30-35-6 through 35-13 and tested for impairment under the guidance for long-lived assets in Subtopic 360-10.

350-30-05-5

This Subtopic also includes guidance on the presentation of intangible assets in the balance sheet, presentation of amortization expense and impairment losses for intangible assets in the income statement, and disclosure of information on intangible assets in the notes to financial statements.

Scope and Scope Exceptions

350-30-15-3

The guidance in this Subtopic applies to the following:

a. Intangible assets acquired individually or with a group of other assets (but not the recognition and initial measurement of those acquired in a business combination or an **acquisition by a not-for-profit entity**)

b. Intangible assets (other than goodwill) that an entity recognizes in accordance with Subtopic 805-20 or 958-805 after they have been initially recognized and measured, except for those identified in the following paragraph

c. Subparagraph not used.

d. Costs of internally developing identifiable intangible assets that an entity recognizes as assets.

The disclosure requirements of paragraphs 350-30-50-1 through 50-3 also apply to capitalized software costs.

350-30-15-4

The guidance in this Subtopic does not apply to the following:

a. Subparagraph not used.

b. Subparagraph superseded by Accounting Standards Update No. 2010-07.

c. Except for certain disclosure requirements as noted in the preceding paragraph, capitalized software costs

d. Intangible assets recognized for acquired insurance contracts under the requirements of Subtopic 944-805.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Scope and Scope Exceptions

350-30-15-3

The guidance in this Subtopic applies to the following:

a. Intangible assets acquired individually or with a group of other assets (but not the recognition and initial measurement of those acquired in a business combination, acquired in an **acquisition by a not-for-profit entity**, or recognized by a **joint venture** upon formation)

b. Intangible assets (other than goodwill) that an entity recognizes in accordance with Subtopic 805-20, 805-60, or 958-805 after they have been initially recognized and measured, except for those identified in paragraph 350-30-15-4

c. Subparagraph not used.

d. Costs of internally developing identifiable intangible assets that an entity recognizes as assets.

The disclosure requirements of paragraphs 350-30-50-1 through 50-3 also apply to capitalized software costs.

350-30-15-4

Transition Date: *(P) December 16, 2022; (N) December 16, 2024* | **Transition Guidance:** 944-40-65-2

The guidance in this Subtopic does not apply to the following:

a. Subparagraph not used.

b. Subparagraph superseded by Accounting Standards Update No. 2010-07.

c. Except for certain disclosure requirements as noted in paragraph 350-30-15-3, capitalized software costs

d. Except for disclosures required by paragraph 944-805-50-1 (however, an insurance entity need not duplicate disclosures that also are required by paragraphs 944-30-50-2A through 50-2B), intangible assets recognized for acquired insurance contracts under the requirements of Subtopic 944-805.

Transition Date: *(P) December 16, 2024; (N) December 16, 2024* | **Transition Guidance:** 350-60-65-1

The guidance in this Subtopic does not apply to the following:

a. Subparagraph not used.

b. Subparagraph superseded by Accounting Standards Update No. 2010-07.

c. Except for certain disclosure requirements as noted in paragraph 350-30-15-3, capitalized software costs

d. Except for disclosures required by paragraph 944-805-50-1 (however, an insurance entity need not duplicate disclosures that also are required by paragraphs 944-30-50-2A through 50-2B), intangible assets recognized for acquired insurance contracts under the requirements of Subtopic 944-805

e. Crypto assets accounted for in accordance with Subtopic 350-60, except for recognition and initial measurement of crypto assets.

The initial recognition and measurement provisions of ASC 350-30 apply to intangible assets acquired individually or as part of a group that does not constitute a business, as defined in ASC 805. ASC 805 addresses the recognition and initial measurement of intangible assets acquired in a business combination. ASC 805-60 addresses the recognition and initial measurement of intangible assets recognized in a joint venture formation. Likewise, ASC 958 addresses the recognition and initial measurement of intangible assets acquired in an acquisition of a business or nonprofit activity by a not-for-profit entity. ASC 350 does not apply to intangible assets recognized for acquired insurance contracts under the requirements of ASC 944.

ASC 350 addresses the subsequent accounting for goodwill and intangible assets acquired either individually, with a group of other assets, in a business combination or resulting from a joint venture formation. Goodwill embedded in the difference between the cost of an equity method investment and the investor's interest in the underlying net assets of the investee (such goodwill is referred to as "equity method goodwill") must not be amortized or tested for impairment in accordance with ASC 350-20. Instead, equity method goodwill and the associated equity method investments are evaluated for impairment in accordance with ASC 323-10-35-32.

ASC 350 addresses the impairment of goodwill and intangible assets that are not amortized; while ASC 360-10 addresses the impairment of intangible assets that are amortized.

ASC 350 also applies to the excess reorganization value recognized by companies that adopt fresh-start reporting in accordance with ASC 852-10. The FASB believes that excess reorganization value is similar to goodwill and, therefore, excess reorganization value should be reported as goodwill and accounted for under ASC 350-20.

For further information on ASC 805, ASC 360-10, and ASC 852, see our FRDs, ***Business combinations***, ***Impairment or disposal of long-lived assets*** and ***Bankruptcies, liquidations and quasi-reorganizations***, respectively.

1.1.1 Goodwill accounting alternatives for private companies and not-for-profit entities

ASC 350 provides an accounting alternative that allows private companies[1] and not-for-profit (NFP) entities to amortize goodwill acquired in a business combination and to use a simplified one-step impairment test.

With ASU 2021-03, the FASB provided a second accounting alternative that allows private companies and NFPs to assess whether triggering events for goodwill impairment have occurred only as of the end of their annual reporting period, or interim reporting period if they report more frequently.

Refer to Appendix A for guidance on applying what we refer to as the goodwill amortization accounting alternative and the goodwill triggering event evaluation accounting alternative, respectively.

1.1.2 Not-for-profit entities and private companies that have not elected the goodwill amortization accounting alternative

Not-for-profit entities within the scope of ASC 958 and private companies must apply the guidance on subsequent accounting for goodwill and indefinite-lived intangible assets in ASC 350. Therefore, goodwill and indefinite-lived intangible assets of not-for-profit entities and private companies that have not elected the goodwill amortization accounting alternative discussed above and in Appendix A are subject to an impairment test at least annually.

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[1] Refer to Appendix H for the definition of a private company from the ASC Master Glossary.

1.1.3 Accounting by producers or distributors of films

Movies, television programs and other assets in the scope of ASC 926-20 will continue to be accounted for in accordance with that guidance as opposed to ASC 350. ASC 926-20 applies to films, which are defined as feature films, television specials, television series or similar products (including animated films and television programming) that are sold, licensed or exhibited, whether produced on film, videotape, digital or other video recording formats. ASC 350-30 is not applicable to these intangible assets, and ASC 926-20 does not contemplate the concept of an indefinite useful life as set forth in ASC 350-30. Therefore, these assets should continue to be amortized under ASC 926-20 (e.g., using the individual-film-forecast-computation method).

1.2 Initial recognition and measurement of intangible assets

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Overall

Scope and Scope Exceptions

350-10-15-3

The guidance in the Intangibles—Goodwill and Other Topic does not apply to the following transactions and activities:

a. The accounting at acquisition for **goodwill** acquired in a business combination (for guidance see Subtopic 805-30)

b. Subparagraph not used.

c. The accounting at acquisition for goodwill acquired in an **acquisition by a not-for-profit entity** (for guidance see Subtopic 958-805)

d. The accounting at acquisition for **intangible assets** (other than goodwill) acquired in a business combination or in an acquisition by a not-for-profit entity (for guidance see Subtopics 805-20 and 958-805).

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Recognition

350-30-25-1

An intangible asset that is acquired either individually or with a group of other assets shall be recognized.

350-30-25-2

As indicated in paragraph 805-50-30-3, the cost of a group of assets acquired in a transaction other than a business combination or an **acquisition by a not-for-profit entity** shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to **goodwill**.

350-30-25-4

Intangible assets that are acquired individually or with a group of assets in a transaction other than a business combination or an acquisition by a not-for-profit entity may meet asset recognition criteria in FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*, even though they do not meet either the contractual-legal criterion or the separability criterion (for example, specially-trained employees or a unique manufacturing process related to an acquired manufacturing plant). Such transactions commonly are bargained exchange transactions that are conducted at arm's length, which provides reliable evidence about the existence and fair value of those assets. Thus, those assets shall be recognized as intangible assets.

350-30-25-5

A **defensive intangible asset**, other than an intangible asset that is used in research and development activities, shall be accounted for as a separate unit of accounting. Such a defensive intangible asset shall not be included as part of the cost of an entity's existing intangible asset(s). For implementation guidance on determining whether an intangible asset is a defensive intangible asset, see paragraph 350-30-55-1. For guidance on intangible assets acquired in a business combination or in an acquisition by a not-for-profit entity that are used in research and development activities (regardless of whether they have an alternative future use), see paragraph 350-30-35-17A. For guidance on intangibles that are purchased from others for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise), see Subtopic 730-10.

Initial Measurement

350-30-30-1

An intangible asset that is acquired either individually or with a group of other assets (but not those acquired in a business combination) shall be initially measured based on the guidance included in paragraphs 805-50-15-3 and 805-50-30-1 through 30-4.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

Intangibles — Goodwill and Other — Overall

350-10-15-3

The guidance in the Intangibles—Goodwill and Other Topic does not apply to the following transactions and activities:

a. The accounting at acquisition for **goodwill** acquired in a business combination (for guidance see Subtopic 805-30)

b. Subparagraph not used.

c. The accounting at acquisition for goodwill acquired in an **acquisition by a not-for-profit entity** (for guidance see Subtopic 958-805)

d. The accounting at acquisition for **intangible assets** (other than goodwill) acquired in a business combination or in an acquisition by a not-for-profit entity (for guidance see Subtopics 805-20 and 958-805)

e. The accounting upon formation for intangible assets and goodwill recognized by a **joint venture** (for guidance see Subtopic 805-60).

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Recognition

350-30-25-2

As indicated in paragraph 805-50-30-3, the cost of a group of assets acquired in a transaction other than a business combination, an **acquisition by a not-for-profit entity**, or a **joint venture** formation shall be allocated to the individual assets acquired based on their relative fair values and shall not give rise to **goodwill**.

350-30-25-4

Intangible assets that are acquired individually or with a group of assets in a transaction other than a business combination, an acquisition by a not-for-profit entity, or a joint venture upon formation may meet asset recognition criteria in FASB Concepts Statement No. 5, Recognition and Measurement in

Financial Statements of Business Enterprises, even though they do not meet either the contractual-legal criterion or the separability criterion (for example, specially-trained employees or a unique manufacturing process related to an acquired manufacturing plant). Such transactions commonly are bargained exchange transactions that are conducted at arm's length, which provides reliable evidence about the existence and fair value of those assets. Thus, those assets shall be recognized as intangible assets.

Transition Date: *(P) December 16, 2024; (N) December 16, 2025* **| Transition Guidance:** 105-10-65-9

350-30-25-4

Intangible assets that are acquired individually or with a group of assets in a transaction other than a business combination, an acquisition by a not-for-profit entity, or a joint venture upon formation may qualify for recognition even though they do not meet either the contractual-legal criterion or the separability criterion for being an identifiable asset (for example, specially-trained employees or a unique manufacturing process related to an acquired manufacturing plant). Such transactions commonly are bargained exchange transactions that are conducted at arm's length, which provides reliable evidence about the existence and fair value of those assets. Thus, those assets shall be recognized as intangible assets.

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* **| Transition Guidance:** 805-60-65-1

350-30-25-5

A **defensive intangible asset**, other than an intangible asset that is used in research and development activities, shall be accounted for as a separate unit of accounting. Such a defensive intangible asset shall not be included as part of the cost of an entity's existing intangible asset(s). For implementation guidance on determining whether an intangible asset is a defensive intangible asset, see paragraph 350-30-55-1. For guidance on intangible assets acquired in a business combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that are used in research and development activities (regardless of whether they have an alternative future use), see paragraph 350-30-35-17A. For guidance on intangibles that are purchased from others for a particular research and development project and that have no alternative future uses (in other research and development projects or otherwise), see Subtopic 730-10.

Intangible assets acquired either individually or with a group of other assets outside of a business combination are initially recognized and measured based on their cost to the acquiring entity. The cost[2] of a group of assets that does not meet the definition of a business in ASC 805 is allocated to the individual assets based on their relative fair value. The recognition of goodwill is precluded in asset acquisitions. The relative fair value allocation process could result in acquired assets being valued in excess of or less than their individual fair values.

Moreover, the measurement of deferred tax assets acquired and deferred tax liabilities assumed in an acquisition of a group of assets that does not constitute a business will usually require an iterative approach that affects the measurement of other individual assets acquired and liabilities assumed in the net asset group. See section 13 in our FRD, ***Income taxes***, for further discussion of the requirements of ASC 740 in asset acquisitions.

See section 2 of our FRD, ***Business combinations***, for a discussion of the definition of a business and transactions that are considered business combinations. In addition, see Appendix A in our FRD, ***Business combinations***, for a more detailed discussion on the accounting for asset acquisitions.

[2] Transaction costs incurred in the acquisition of a group of assets generally are a component of the consideration transferred and as such, are capitalized as a component of the cost of the assets acquired. This approach differs from the new basis approach for business combinations, under which all transaction costs are expensed because they are not a component of the fair value of the acquired entity.

1.3 Internally developed intangible assets

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Recognition

350-20-25-3

Costs of internally developing, maintaining, or restoring **intangible assets** (including goodwill) that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business and related to an entity as a whole, shall be recognized as an expense when incurred.

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Recognition

350-30-25-3

Costs of internally developing, maintaining, or restoring **intangible assets** that are not specifically identifiable, that have indeterminate lives, or that are inherent in a continuing business or nonprofit activity and related to an entity as a whole, shall be recognized as an expense when incurred.

Costs to internally develop, maintain or restore unidentifiable intangible assets (including goodwill) that have indeterminate lives or that are inherent in a continuing business and related to the business as a whole are recognized as expenses as incurred unless explicitly capitalizable under other US GAAP (e.g., internally developed software).

2 Subsequent accounting for intangible assets other than goodwill

2.1 Determining the useful lives of intangible assets

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-1

The accounting for a recognized intangible asset is based on its **useful life** to the reporting entity. An intangible asset with a finite useful life shall be amortized; an intangible asset with an indefinite useful life shall not be amortized.

350-30-35-2

The useful life of an intangible asset to an entity is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of that entity. The useful life is not the period of time that it would take that entity to internally develop an intangible asset that would provide similar benefits. However, a reacquired right recognized as an intangible asset is amortized over the remaining contractual period of the contract in which the right was granted. If an entity subsequently reissues (sells) a reacquired right to a third party, the entity includes the related unamortized asset, if any, in determining the gain or loss on the reissuance.

350-30-35-3

The estimate of the useful life of an intangible asset to an entity shall be based on an analysis of all pertinent factors, in particular, all of the following factors with no one factor being more presumptive than the other:

a. The expected use of the asset by the entity.

b. The expected useful life of another asset or a group of assets to which the useful life of the intangible asset may relate.

c. Any legal, regulatory, or contractual provisions that may limit the useful life. The cash flows and useful lives of **intangible assets** that are based on legal rights are constrained by the duration of those legal rights. Thus, the useful lives of such intangible assets cannot extend beyond the length of their legal rights and may be shorter.

d. The entity's own historical experience in renewing or extending similar arrangements, consistent with the intended use of the asset by the entity, regardless of whether those arrangements have explicit renewal or extension provisions. In the absence of that experience, the entity shall consider the assumptions that market participants would use about renewal or extension consistent with the highest and best use of the asset by market participants, adjusted for entity-specific factors in this paragraph.

e. The effects of obsolescence, demand, competition, and other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing regulatory environment, and expected changes in distribution channels)

f. The level of maintenance expenditures required to obtain the expected future cash flows from the asset (for example, a material level of required maintenance in relation to the carrying amount of the asset may suggest a very limited useful life). As in determining the useful life of depreciable tangible assets, regular maintenance may be assumed but enhancements may not.

Further, if an income approach is used to measure the fair value of an intangible asset, in determining the useful life of the intangible asset for amortization purposes, an entity shall consider the period of expected cash flows used to measure the fair value of the intangible asset adjusted as appropriate for the entity-specific factors in this paragraph.

350-30-35-4

If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. The term indefinite does not mean the same as infinite or indeterminate. The useful life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon—that is, there is no foreseeable limit on the period of time over which it is expected to contribute to the cash flows of the reporting entity. Such intangible assets might be airport route authorities, certain trademarks, and taxicab medallions.

Implementation Guidance and Illustrations

350-30-55-1C

This paragraph provides implementation guidance on paragraph 350-30-35-3(d). For a recognized intangible asset, there might continue to be a difference between the useful life of the asset and the period of expected cash flows used to measure the fair value of the asset. However, that difference likely will be limited to situations in which the entity's own assumptions about the period over which the asset is expected to contribute directly and indirectly to the future cash flows of the entity are different from the assumptions market participants would use in pricing the asset. In those situations, it is appropriate for the entity to use its own assumptions because amortization of a recognized intangible asset should reflect the period over which the asset will contribute both directly and indirectly to the expected future cash flows of the entity.

Regardless of how an intangible asset (other than goodwill) is acquired (i.e., in a business combination, in an asset acquisition or internally generated), the accounting treatment after the initial recognition of the asset depends on the estimated useful life of that asset to the reporting company. The useful life of an intangible asset is the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the company. The following are some observations regarding estimated useful lives:

- The useful life should reflect the period over which an intangible asset will contribute directly or indirectly to the cash flows of the reporting company, not the period of time that it would take that company to internally develop an intangible asset that would provide similar benefits.
- The useful life does not necessarily represent the intangible asset's economic or productive life. The useful life is only the period that the asset is expected to contribute to the future cash flows of that company. That is, the acquiring company may believe that the intangible asset will generate cash flows for a period longer than the company expects to own the asset (e.g., the company expects to sell the asset before it is fully consumed). In this case, the asset would be amortized over the period of expected ownership, considering the expected residual value.
- Some intangible assets contribute only indirectly to future cash flows, and the useful life is the period over which that contribution will be made. For example, noncompete agreements contribute only indirectly to future cash flows for the period that the agreement will preclude competition. In addition, intangible assets that an acquirer does not intend to use might contribute indirectly to future cash flows (see section 2.4).

An intangible asset with a finite useful life is amortized, while an intangible asset with an indefinite useful life is not amortized, but is tested at least annually for impairment. In estimating the useful life of an intangible asset, a company analyzes all pertinent factors. In particular, a company considers the following factors with no one factor being more determinative than another:

- The expected use of the intangible asset by the company
- The expected useful life of another asset or a group of assets to which the useful life of the asset may relate
- Any legal, regulatory or contractual provisions that may limit the useful life
- The entity's experience in renewing or extending similar arrangements that are consistent with the intended use of the asset by the entity, regardless of whether those arrangements have explicit renewal or extension provisions
- If the entity doesn't have experience with renewals or extensions, the assumptions that market participants would use about renewals or extensions that would result in the highest and best use of the asset, adjusted for entity-specific factors
- The effects of obsolescence, demand, competition and other economic factors (e.g., stability of the industry, technological advances, legislative action that results in an uncertain or changing regulatory environment, expected changes in distribution channels)
- The level of maintenance expenditures required to obtain the expected future cash flows from the asset (e.g., a material level of required maintenance in relation to the carrying amount of the asset that suggests the asset has a very limited useful life)[3]

If a company performs an analysis of all pertinent factors that should be considered in determining the useful life of an intangible asset and concludes that there is no limit on the useful life of an intangible asset, that asset is deemed to have an indefinite life. In other words, if no legal, regulatory, contractual, competitive, economic or other factors limit the useful life of an intangible asset to the reporting company, the useful life of that intangible asset is considered to be indefinite. Indefinite does not mean infinite or indeterminate. The useful life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon. That is, there is no foreseeable limit on the period of time over which it is expected to contribute to the cash flows of the reporting entity. Further, just because a precise useful life is not determinable does not mean that the useful life is indefinite.

The following examples help illustrate the evaluation of whether acquired intangible assets are indefinite-lived.

Illustration 2-1: Determining the useful life of an intangible asset — indefinite life
Company A manufactures and distributes men's and women's sportswear. In 20X2, Company A acquired Company B, a competitor that owned a prominent women's sportswear line under Brand W. The brand name has no limit on its legal life, and Company A intends to market and distribute women's sportswear products under the Brand W name indefinitely. Future cash flow projections support the assertion that products sold under Brand W's name will generate cash flows for Company A for an indefinite period of time.

[3] As in determining the useful life of depreciable tangible assets, regular maintenance may be assumed but enhancements may not.

Analysis:

Company A would recognize an intangible asset for the acquisition-date fair value of Brand W. Since Brand W is expected to contribute to cash flows indefinitely and there are no associated costs of renewal, it would be considered to have an indefinite useful life. Accordingly, Brand W would not be amortized unless its useful life is determined to no longer be indefinite. Rather, it would be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

Illustration 2-2: Determining the useful life of an intangible asset — finite life

Assume the same facts as in Illustration 2-1, except that the women's sportswear industry is rapidly changing, with significant competition coming from other apparel companies that have more sophisticated technological capabilities than Company A. Recent trends indicate that consumer preference is shifting to apparel with sweat-absorption technology, an area in which Company A has not yet made significant advancements (Brand W similarly did not have such technology when acquired from Company B).

Analysis:

The products sold under Brand W's name are in a competitive market that is expected to see increased competition, which likely will result in declining consumer demand for Brand W. Further, Company A's lack of technological expertise to provide products with the desired sweat-absorption technology would likely make it difficult to conclude that Brand W will generate cash flows for Company A for an indefinite period of time. Accordingly, Brand W would be assigned a finite useful life.

2.1.1 Legal rights

Assets are sometimes based on legal rights that are conveyed in perpetuity rather than for a defined finite term. Those assets may have cash flows associated with them that may be expected to continue for many years, or indefinitely. If the cash flows are expected to continue only for a finite period, the useful life of the asset should be limited to that finite period. However, if the cash flows are expected to continue indefinitely, the useful life of the asset may be indefinite.

2.1.2 Renewal and extension rights

ASC 350-30 requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset when determining the useful life of an intangible asset. An entity is required to use its own historical experiences in renewing or extending similar arrangements when determining the useful life of an intangible asset, adjusted for the entity-specific factors in ASC 350-30-35-3. In the absence of historical experience, an entity must consider the assumptions that market participants would use about renewal or extension (consistent with the highest and best use of the asset by market participants), adjusted for the entity-specific factors in ASC 350-30-35-3. These provisions are applied even if there is a substantial cost or material modification upon renewal.

Illustrations D-10 and D-11 in Appendix D provide factors to consider when determining the useful life of an intangible asset when an entity lacks historical experience.

2.1.2.1 Effect of using an income valuation approach

It is common for an income approach to be used to measure the fair value of a recognized intangible asset. In determining the useful life of the asset, the period of expected cash flows used to measure the fair value of the recognized intangible asset, adjusted for the entity-specific factors in ASC 350-30-35-3, should be considered. Those entity-specific factors include, but are not limited to, the entity's expected use of the asset and the entity's historical experience in renewing or extending similar arrangements.

For a recognized intangible asset, there might continue to be a difference between the useful life of the asset and the period of expected cash flows used to measure the fair value of the asset. However, the FASB believes that any such difference will likely be limited to situations in which the entity's own assumptions about the period over which the asset is expected to contribute directly and/or indirectly to the future cash flows of the entity are different from the assumptions market participants would use in pricing the asset. In those situations, the FASB noted in ASC 350-30-55-1C that it believes it is appropriate for the entity to use its own assumptions because amortization of a recognized intangible asset should reflect the period over which the asset will contribute both directly and indirectly to the expected future cash flows of the entity.

2.1.3 Considerations in determining the useful life of a customer relationship intangible asset

Under ASC 805-20-55-25, a customer relationship exists between an entity and its customers if (1) the entity has information about the customer and has regular contact with the customer and (2) the customer has the ability to make direct contact with the entity. Based on the definition of a customer relationship and the nature of those relationships, we believe that it would be rare for a recognized customer relationship intangible asset to have a useful life that is indefinite. This is due in part to the fact that customers frequently turn over as a result of factors such as changes in relationships or customers going out of business.

In a 2003 speech, an SEC staff member[4] cited the following reasons why it would be rare for a customer-related intangible asset to have an indefinite life:

- "The asset being inherently related to relationships with 'people,' where people in organizations are subject to turnover;
- More broadly, the customer churn rate. Generally, an established customer turnover rate and likewise, a forecasted customer turnover rate, would directly affect the life estimate;
- The relative cost or penalty to the customer for terminating the relationship. Generally, a customer is not 'controlled' by an entity such that the customer can't transfer its business elsewhere without undue cost or penalty; and
- Economic effects such as competition and demand. Economic effects will vary depending on each situation; however, higher demand elasticity and switching availability would typically correspond to a shorter life estimate."

In considering whether a customer relationship intangible asset has an indefinite life, it is also important for a company to consider how it determines the fair value of the customer relationship intangible asset. For example, if the income approach is used to measure the customer relationship intangible and the associated cash flows shows a declining trend, assigning an indefinite useful life may be inconsistent. The SEC staff has requested that registrants disclose how they determined the useful life of customer-related intangible assets and challenges such useful lives when the underlying assumptions do not appear consistent with customer information disclosed in other areas of the filing.

Appendix D includes examples and illustrates different intangible assets and how they should be accounted for in accordance with this subtopic, including determining whether the useful life of an intangible asset is indefinite.

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[4] Remarks by Chad A. Kokenge, Professional Accounting Fellow at the SEC, at the 2003 Thirty-First AICPA National Conference on Current SEC Developments, 11 December 2003.

2.1.4 Considerations in determining the useful life of a reacquired right intangible asset

An acquirer may reacquire a right that it previously had granted to the acquiree to use one or more of the acquirer's recognized or unrecognized assets. Examples of such rights include a right to use the acquirer's trade name under a franchise agreement or a right to use the acquirer's technology under a technology licensing agreement. From a measurement perspective, the guidance in ASC 805 precludes including the value of any renewal rights (both explicit and implicit renewal rights) in determining the fair value of the reacquired right intangible asset.

For the same reasons discussed in section 4.2.5.3.7 of our FRD, ***Business combinations***, regarding the determination of the fair value of a reacquired right, the guidance in ASC 805 limits the period over which the intangible asset is amortized (i.e., its useful life) to the remaining contractual term (i.e., excluding renewal periods) of the contract from which the reacquired right arises. If a reacquired right is subsequently sold to a third party, the acquirer recognizes a gain or loss on the sale based on the difference between the sales price and the remaining carrying amount of the reacquired right.

2.1.5 SEC observations on determining the useful life of an intangible asset

In a 16 August 2001 letter to the Emerging Issues Task Force (EITF) on Statements 141 and 142 implementation issues, the SEC staff stated there may be factors other than those codified in ASC 350-30-35-3 that bear upon the determination of the appropriate estimated useful life of an intangible asset. For instance, the staff believes that the following other factors may need to be considered in determining the useful lives of intangible assets:

- Uncertain continuity of revenues dependent on retention of key employees
- The "churn" rate of customers
- The mobility of the customer and employee base

In response to the SEC staff's letter, the FASB staff noted that the list of factors codified in ASC 350-30-35-3 is illustrative and agreed that the factors the SEC staff identified also may be relevant factors to consider depending on the nature of the asset. The FASB staff further indicated that there may be other relevant factors to consider in addition to those codified in ASC 350-30-35-3 and those identified by the SEC staff, depending on the nature of the asset.

When determining the useful life of an intangible asset, the SEC staff expects registrants to consider all factors listed in ASC 350 and all other relevant information when determining the period over which the asset is expected to contribute directly or indirectly to its future cash flows. The SEC staff may ask how a registrant has considered its own historical experience in renewing or extending similar arrangements (consistent with the intended use of the asset by the registrant), regardless of whether those arrangements have explicit renewal or extension provisions. A registrant should consider the useful life of an intangible asset to be indefinite only after considering all relevant facts and determining that there are no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of the intangible asset. The SEC staff has challenged assertions that intangible assets have an indefinite life and has asked registrants to disclose, when not otherwise provided, what factors were considered in making this determination.

2.2 Intangible assets with finite lives

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-6

A recognized intangible asset shall be amortized over its useful life to the reporting entity unless that life is determined to be indefinite. If an intangible asset has a finite useful life, but the precise length of that life is not known, that intangible asset shall be amortized over the best estimate of its useful life. The method of amortization shall reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight-line amortization method shall be used.

350-30-35-7

An intangible asset shall not be written down or off in the period of acquisition unless it becomes impaired during that period. However, paragraph 730-10-25-2(c) requires amounts assigned to intangible assets acquired in a transaction other than a business combination or an **acquisition by a not-for-profit entity** that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date.

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350-30-35-7

An intangible asset shall not be written down or off in the period of acquisition unless it becomes impaired during that period. However, paragraph 730-10-25-2(c) requires amounts assigned to intangible assets acquired in a transaction other than a business combination or an **acquisition by a not-for-profit entity** or recognized by a **joint venture** upon formation that are to be used in a particular research and development project and that have no alternative future use to be charged to expense at the acquisition date.

As noted above, an acquired intangible asset must be amortized over its useful life, unless the useful life is indefinite. If an intangible asset has a finite useful life, but the precise length of that life is not known, the intangible asset should be amortized over the best estimate of its useful life.

An intangible asset should not be written down or off in the period of acquisition unless it becomes impaired during that period. However, amounts assigned to intangible assets acquired in a transaction other than a business combination or joint venture formation that are to be used in a particular research and development project and that have no alternative future use should be charged to expense in the period acquired in accordance with ASC 730. See section A.3.1.1.2 in our FRD, ***Business combinations***, for further discussion on the accounting for acquired research and development assets in an asset acquisition.

See section 2.3.1 below and section 4.2.6 in our FRD, ***Business combinations***, for further discussion on the accounting for acquired research and development assets in a business combination.

2.2.1 Amortization method

In paragraph B54 of the Background Information and Basis for Conclusions of Statement 142, the FASB noted that in considering the methods of amortization, Opinion 17 required that a straight-line method be used to amortize intangible assets unless another method was demonstrated to be more appropriate. However, the FASB also noted that circumstances may exist in which another method may be more appropriate, such as in the case of a license that entitles the holder to produce a finite quantity of

product. The FASB therefore concluded that the amortization method adopted should reflect the pattern in which the asset is consumed if that pattern can be "reliably determined," with the straight-line method being used as a default.

The evaluation of whether the pattern in which the asset is consumed can be reliably determined involves judgment based on the facts and circumstances. While the term is not defined in US GAAP, we believe that the reliably determined threshold suggests there should be a relatively high level of confidence that actual cash flows (or the pattern of cash flows) will not deviate significantly from those used in the measurement[5] of the intangible asset. For example, a higher discount rate assumption used in a valuation may suggest an increase in the inherent risk in the cash flows. As the inherent risk increases, it would be less likely that a pattern of amortization commensurate with the pattern of cash flows used in the valuation would be considered reliably determinable. In those instances, the straight-line method of amortization would likely be more appropriate.

Certain intangible assets, such as those that are customer-related, derive their value from the future cash flows expected from the customers of the acquired entity. These types of intangible assets are often valued using the income approach, with an attrition rate resulting in a dissipation of the cash flows over time. If the pattern of declining cash flows is reliably determinable, an accelerated amortization method that reflects the economic benefit to the entity should be used. However, if it has been determined that the pattern of economic benefit to the entity cannot be reliably determined, but the underlying cash flows supporting the measurement of the customer-related intangible asset shows a decay, we believe that the straight-line method of amortization using a shortened estimated useful life is appropriate.

When a method of amortization other than straight-line is used and the accelerated pattern is based on the estimated cash flows used in the valuation, a question arises as to whether the ratio of estimated period cash flows to total cash flows should be determined on a discounted or undiscounted basis. Neither the FASB nor SEC staff has provided any guidance on the use of discounted versus undiscounted cash flows in the determination of an amortization pattern. Absent any such guidance, we believe that an entity can elect to use discounted or undiscounted cash flows to determine the amortization pattern. The entity should consistently apply its accounting policy to all intangible assets of the entity subjected to the amortization method. Appropriate disclosure of the accounting policy applied should be provided, consistent with ASC 235-10.

2.2.1.1 SEC observations on determining the amortization method of a finite-lived intangible asset

When the pattern of economic benefit to the entity can be reliably determined, we understand the SEC staff has accepted the straight-line method of amortization over a shorter period if the difference in amortization is not material from amortization using an accelerated method. Entities should carefully evaluate the materiality of such differences including whether the current period amortization amounts and cumulative differences in amortization may become material in future periods.

The SEC staff has inquired about the amortization method chosen for customer-related intangible assets (e.g., straight-line versus accelerated) and has requested that registrants explain their key assumptions about the expected future cash flows from an acquired customer-related intangible asset to support their chosen amortization method.

2.2.1.1.1 Back-end loaded patterns of consumption

We believe that it will be rare that entities would have persuasive evidence to support an amortization method for an intangible asset with a finite useful life that results in a lower amount of accumulated amortization than under the straight-line method. The SEC staff believes that for many intangible assets

[5] In many instances, intangible assets that are not often bought or sold separately outside of a business combination are generally valued using an income approach.

that have patterns of consumption other than straight-line patterns, benefits are generally skewed towards the earlier years. Consequently, the SEC staff has indicated that it will view with skepticism an intangible asset with an amortization pattern that favors greater charges in later years.

2.2.2 Residual value

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-8

The amount of an intangible asset to be amortized shall be the amount initially assigned to that asset less any **residual value**. The residual value of an intangible asset shall be assumed to be zero unless at the end of its useful life to the entity the asset is expected to continue to have a useful life to another entity and either of the following conditions is met:

a. The reporting entity has a commitment from a third party to purchase the asset at the end of its useful life.

b. The residual value can be determined by reference to an exchange transaction in an existing market for that asset and that market is expected to exist at the end of the asset's useful life.

The amount of an intangible asset to be amortized is the amount initially assigned to that asset less its residual value, which is the estimated fair value of the intangible asset at the end of its useful life to the company (less any disposal cost). The residual value of an intangible asset should be assumed to be zero unless at the end of its useful life to the company, the asset is expected to have a useful life to another entity and (1) the reporting company has a commitment from a third party to purchase the asset at the end of its useful life or (2) the residual value can be determined by reference to an exchange transaction in an existing market for that asset and that market is expected to exist at the end of the asset's useful life. The residual value of an intangible asset should be determined net of any costs to dispose of the intangible asset. We believe that it will be rare for an intangible asset to have a residual value.

2.2.3 Periodic evaluation of the estimated useful life

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-9

An entity shall evaluate the remaining useful life of an intangible asset that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying amount of the intangible asset shall be amortized prospectively over that revised remaining useful life.

350-30-35-10

An intangible asset that initially is deemed to have a finite useful life shall cease being amortized if it is subsequently determined to have an indefinite useful life, for example, due to a change in legal requirements. If an intangible asset that is being amortized is subsequently determined to have an indefinite useful life, the asset shall be tested for impairment in accordance with paragraphs 350-30-35-18 through 35-20.

350-30-35-11

Any resulting impairment loss would be due to a change in accounting estimate and thus, consistent with Topic 250, shall be recognized as a change in estimate, not as a change in accounting principle. Therefore, that loss shall be presented in the income statement in the same manner as other impairment losses.

350-30-35-12

That intangible asset shall no longer be amortized and shall be accounted for in the same manner as other intangible assets that are not subject to amortization.

The useful life of the intangible asset should be evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining useful life. Changes in the estimated remaining useful life would be reflected prospectively as the intangible asset is amortized over the revised remaining useful life. See our FRD, ***Accounting changes and error corrections***, for further discussion on changes in accounting estimates in accordance with ASC 250.

We believe that it will be rare for an intangible asset that is being amortized to be subsequently deemed to have an indefinite life. However, in this situation, the asset should be tested for impairment in the same manner as other indefinite-lived intangible assets (i.e., compare the carrying amount to the fair value of the asset) before the change in classification and accounting for the asset. Any resulting impairment loss is recognized in a manner consistent with other impairments of indefinite-lived intangible assets and not as a change in accounting principle. Therefore, the loss would be presented in the income statement in the same manner as other impairment losses. The amortization of the asset should then cease, and the guidance on indefinite-lived intangible assets should be applied to that asset going forward. Such a reclassification of the asset might result in an impairment charge because the recoverability of the asset under the undiscounted cash flow approach in ASC 360-10 used to assess whether an amortizable intangible asset is impaired would no longer be considered in determining if the asset is impaired under the indefinite-lived intangible asset approach.

2.2.4 Impairment of finite-lived intangible assets

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-14

An intangible asset that is subject to amortization shall be reviewed for impairment in accordance with the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 by applying the recognition and measurement provisions in paragraphs 360-10-35-17 through 35-35. In accordance with the Impairment or Disposal of Long–Lived Assets Subsections of Subtopic 360-10, an impairment loss shall be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited.

Intangible assets that are being amortized under ASC 350-30 are reviewed for impairment when indicators of impairment are present in accordance with ASC 360-10. The indicators included in ASC 360-10-35-21 are used in determining when an intangible asset is tested for impairment. Those indicators are examples of events or changes in circumstances that indicate that the carrying amount of an asset may not be recoverable, and include, but are not limited to:

- A significant decrease in the market price of an asset

- A significant adverse change in the extent or manner in which an asset is being used
- A significant adverse change in legal factors or in the business climate that could affect the value of an asset, including an adverse action or assessment by a regulator
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of an asset
- A current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of an asset
- A current expectation that, more likely than not,[6] an asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life

See our FRD, ***Impairment or disposal of long-lived assets***, for a detailed discussion on the impairment assessment for finite-lived intangible assets.

2.3 Intangible assets with indefinite lives

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-15

If an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its useful life is determined to be no longer indefinite.

350-30-35-16

An entity shall evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

350-30-35-17

If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, the asset shall be tested for impairment in accordance with paragraphs 350-30-35-18 through 35-19. That intangible asset shall then be amortized prospectively over its estimated remaining useful life and accounted for in the same manner as other intangible assets that are subject to amortization.

350-30-35-17A

Intangible assets acquired in a business combination or an acquisition by a not-for-profit entity that are used in research and development activities (regardless of whether they have an alternative future use) shall be considered indefinite lived until the completion or abandonment of the associated research and development efforts. During the period that those assets are considered indefinite lived, they shall not be amortized but shall be tested for impairment in accordance with paragraphs 350-30-35-18 through 35-19. Once the research and development efforts are completed or abandoned, the entity shall determine the useful life of the assets based on the guidance in this Section. Consistent with the guidance in paragraph 360-10-35-49, intangible assets acquired in a business combination or an acquisition by a not-for-profit entity that have been temporarily idled shall not be accounted for as if abandoned.

[6] The term "more likely than not" refers to a level of likelihood that is more than 50 percent.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-30-35-17A

Intangible assets acquired in a business combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that are used in research and development activities (regardless of whether they have an alternative future use) shall be considered indefinite lived until the completion or abandonment of the associated research and development efforts. During the period that those assets are considered indefinite lived, they shall not be amortized but shall be tested for impairment in accordance with paragraphs 350-30-35-18 through 35-19. Once the research and development efforts are completed or abandoned, the entity shall determine the useful life of the assets based on the guidance in this Section. Consistent with the guidance in paragraph 360-10-35-49, intangible assets acquired in a business combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that have been temporarily idled shall not be accounted for as if abandoned.

350-30-35-13

When an intangible asset's useful life is no longer considered to be indefinite, such as when unanticipated competition enters the market, the intangible asset must be amortized over the remaining period that it is expected to contribute to cash flows.

ASC 350-30-35-4 indicates that the useful life of an intangible asset is indefinite if that life extends beyond the foreseeable horizon. That is, there is no foreseeable limit on the period of time over which it is expected to contribute to the cash flows of the reporting entity. As a result, entities should perform a detailed analysis of all relevant factors before a determination is made that there is no limit on the useful life of an intangible asset and that it therefore has an indefinite useful life. An intangible asset that is deemed to have an indefinite life should not be amortized until its useful life is determined to be finite. Companies should review the useful life of an indefinite-lived intangible asset each reporting period to determine whether events and circumstances continue to support the indefinite useful life classification.

When a company determines that the life of an intangible asset is no longer indefinite, that asset should be tested for impairment in the same manner as other indefinite-lived intangible assets, as described below. The intangible asset, after recognition of any impairment, should then be amortized over its remaining estimated useful life. The example below illustrates this concept.

Illustration 2-3: Change in estimated useful life — from indefinite-lived to finite-lived

Company A manufactures and distributes men's and women's sportswear. At 31 December 20X1, Company A has an indefinite-lived intangible asset recorded for an existing women's sportswear brand, Brand X, from a previous acquisition. In 20X2, Company A acquired Company B, a competitor that owned a prominent women's sportswear line under Brand W. The brand name has no limit on its legal life, and Company A intends to market and distribute women's sportswear products under the Brand W name indefinitely. Future cash flow projections support the assertion that products sold under Brand W's name will generate cash flows for Company A for an indefinite period of time. As of the acquisition date, the acquisition of Brand W did not affect Company A's conclusion that Brand X should still be classified as an indefinite-lived intangible asset.

In 20X3, Brand W's sales declined while Brand X's sales increased. Accordingly, on 30 June 20X3, Company A determines that the continuing competition between its two brands is detrimental to Company A's overall sales and, therefore, decides to phase out Brand W over the next five years.

Analysis:

Company A's decision to phase out Brand W over the next five years results in the determination that Brand W should no longer be classified as an indefinite-lived intangible asset. Accordingly, Company A should test Brand W for impairment immediately prior to the change in classification (in this case as of 30 June 20X3), and recognize an impairment charge, if any. Company A should then amortize Brand W over its five-year useful life.

2.3.1 Acquired research and development assets

ASC 805 requires that all intangible assets acquired in a business combination that are used in research and development activities (i.e., in-process research and development (IPR&D) assets) be capitalized as indefinite-lived intangible assets, regardless of whether they have an alternative future use. These acquired assets remain indefinite-lived assets until the completion or abandonment (i.e., the time at which the company determines it will not pursue further development of the IPR&D assets, will not derive defensive value from them, and will not sell or license or rent them) of the associated research and development efforts. As discussed in section 2.3.2, during the period in which those acquired assets are considered indefinite-lived (i.e., the period prior to completion or abandonment), they are not amortized but are tested for impairment in accordance with ASC 350-30-35-18 through 35-20.[7]

Once the research and development efforts are completed, the entity determines the useful life of the assets, as discussed in section 2.1, and performs an impairment test immediately prior to the change in classification in accordance with ASC 350-30-35-18 through 35-20. If the research and development efforts are abandoned prior to being completed, the IPR&D asset is written off to expense in the period of abandonment. Pursuant to ASC 360-10-35-47 through 35-49, intangible assets acquired in a business combination, that have been temporarily idled are not accounted for as if abandoned.

Research and development costs incurred after the acquisition date related to IPR&D assets acquired in a business combination should be accounted for in accordance with the guidance in ASC 730. Accordingly, those costs are charged to expense when incurred unless they have an alternative future use.

It is important to note that the accounting for IPR&D in a business combination is different from that of acquisitions of a group of assets not constituting a business, as discussed in section 2.2. See sections 4.2.6, A.3.1.1.2, and D.5.2.1 in our FRD, ***Business combinations***, for further discussion on the accounting for acquired research and development assets in a business combination, an asset acquisition, and a joint venture formation, respectively.

Illustration 2-4: Acquired IPR&D asset subsequently completed

On 1 January 20X1, Pharma X acquires Biotech Y in a business combination accounted for under ASC 805. Prior to the business combination, Biotech Y incurred research and development costs related to an in-process project. These research and development costs have been expensed as incurred by Biotech Y as appropriate under ASC 730. Pharma X believes that the in-process project of Biotech Y has potential and decides to continue the project after acquisition.

On the acquisition date, Pharma X determines that the fair value of the IPR&D asset is $15 million. As a result, Pharma X recognizes an indefinite-lived intangible asset of $15 million for the IPR&D asset.

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[7] See section 2.3.2.1.1.6 for additional considerations relating to application of the qualitative assessment to IPR&D assets and see section 2.3.2.4 for impairment considerations for acquired IPR&D outlicensing arrangements.

On 1 June 20X2, Pharma X completes Phase III clinical trials and applies for and receives FDA approval to commercially market the drug. From 1 January 20X1 to 1 June 20X2, Pharma X has appropriately tested the IPR&D asset for impairment annually. All impairment tests indicated that the fair value of the IPR&D asset exceeded its carrying amount and, accordingly, Pharma X has recorded no impairment loss on the IPR&D asset as of 1 June 20X2.

Analysis:

Because the IPR&D asset is no longer indefinite-lived on 1 June 20X2, Pharma X must determine the useful life of the IPR&D asset and reclassify the intangible asset from indefinite-lived to finite-lived. Also with this reclassification, Pharma X is required to perform an impairment test (as discussed in section 2.3.2) of the IPR&D asset in accordance with ASC 350-30-35-18 through 35-20. After recording any impairment, Pharma X amortizes the finite-lived intangible asset over its remaining estimated useful life.

Illustration 2-5: Acquired IPR&D asset subsequently tested for impairment

Assume the same information regarding the business combination in Illustration 2-4, except that Pharma X did not receive FDA approval. However, Pharma X still intends to continue the development of the product but now anticipates that cash flows and the related future benefits would be less than originally anticipated on the acquisition date. As a result of identifying this triggering event, on 1 June 20X2, Pharma X determines that the fair value of the IPR&D asset is now $12 million.

Analysis:

Because of the triggering events (i.e., no FDA approval and decline in expected future cash flows) on 1 June 20X2, Pharma X records an impairment loss of $3 million and reduces the carrying amount of the IPR&D asset from $15 million to $12 million. If the project later becomes successful and receives FDA approval, Pharma X would assess the IPR&D asset for impairment immediately prior to the change in classification and recognize an impairment charge, if any. Pharma X would then amortize the remaining carrying amount of $12 million (assuming there were no other impairments) over its estimated useful life.

Illustration 2-6: Acquired IPR&D asset subsequently abandoned

Assume the same information regarding the business combination in Illustration 2-4, except that Pharma X did not receive FDA approval and decides to abandon the project (i.e., will not pursue further development of the asset, will not derive defensive value from it and will not sell, license or rent it).

Analysis:

Assuming the IPR&D asset has no alternative future use or value to a market participant, because Pharma X abandoned the project, it would expense the entire carrying amount of the asset as of the abandonment date.

2.3.2 Impairment of indefinite-lived intangible assets

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-18

An intangible asset that is not subject to amortization shall be tested for impairment annually and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

350-30-35-18A

An entity may first perform a qualitative assessment, as described in this paragraph and paragraphs 350-30-35-18B through 35-18F, to determine whether it is necessary to perform the quantitative impairment test as described in paragraph 350-30-35-19. An entity has an unconditional option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test as described in paragraph 350-30-35-19. An entity may resume performing the qualitative assessment in any subsequent period. If an entity elects to perform a qualitative assessment, it first shall assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that an indefinite-lived intangible asset is impaired.

350-30-35-19

The quantitative impairment test for an indefinite-lived intangible asset shall consist of a comparison of the fair value of the asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an entity shall recognize an impairment loss in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis.

350-30-35-20

Subsequent reversal of a previously recognized impairment loss is prohibited.

An intangible asset that is deemed to have an indefinite useful life is not subject to the impairment testing guidance in ASC 360-10. The FASB noted that the nonamortization of the asset merits a more stringent model for the measurement and recognition of impairment. Additionally, because the cash flows associated with indefinite-lived intangible assets would extend into the future indefinitely, those assets might never fail the undiscounted cash flows recoverability test under ASC 360-10. As a result, the recognition of impairment losses on indefinite-lived intangible assets is based solely on a comparison of their fair value to book value as of the impairment test date, without consideration of any recoverability test or any determination by management of whether a decline in fair value is temporary.

Indefinite-lived intangible assets are tested for impairment annually and more frequently if events or changes in circumstances between annual tests indicate that it is more likely than not that the asset is impaired. (The examples of events and circumstances in ASC 350-30-35-18B, as well as other relevant events and circumstances, should be considered in determining if an interim impairment test is necessary. Refer to section 2.3.2.1 for additional discussion of these events and circumstances.) If the fair value of the intangible asset is less than its carrying amount, an impairment loss is recognized in an amount equal to the difference. The asset will then be carried at its new fair value. Thus, unless a company elects to apply the qualitative assessment, it will have to determine fair values for these intangible assets every year and apply, in effect, a lower of carrying amount or fair value model. Any subsequent reversal of a previously recognized impairment loss is prohibited. Further, recognition of an impairment charge for an intangible asset that was previously considered indefinite-lived may be an indication that the asset no longer meets the indefinite-lived criteria, and thus should be amortized over its remaining useful life.

Unlike the impairment test for amortizable intangibles, the impairment test for indefinite-lived intangible assets does *not* include a recoverability test. Because acquired intangible assets are initially recognized at fair value, *any* decrease in the fair value of the indefinite-lived intangible asset will result in an impairment charge. For example, if discounted cash flows are used to determine the fair value of indefinite-lived intangible assets, any increase in interest rates, without an offsetting increase in future cash flows, will cause those discounted cash flows to decrease, resulting in an impairment charge. Therefore, in periods of rising interest rates, companies may be required to record one or more impairment charges as interest rates rise, leading to earnings volatility.

ASC 350-30 is silent as to the timing of the annual impairment test. We believe that an annual test date (for each intangible asset, each class of intangible asset, or all intangible assets) can be established at any date during the year as long as that date is used consistently in subsequent years. This is consistent with the FASB's requirements related to the annual goodwill impairment test. We observe that companies often choose the beginning of the fourth fiscal quarter as the annual measurement date because book balances from the end of the preceding quarter are available and companies have a reasonable period of time to estimate fair value prior to their annual reporting deadlines. However, if a company identifies an impairment charge when performing its annual assessment as of the beginning of its fiscal fourth quarter, it should consider whether the impairment is appropriately recognized in the fourth quarter or whether it should have been recognized in an earlier interim period.

2.3.2.1 Optional qualitative impairment assessment for indefinite-lived intangible assets

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-18B

In assessing whether it is more likely than not that an indefinite-lived intangible asset is impaired, an entity shall assess all relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. Examples of such events and circumstances include the following:

a. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on future expected earnings and cash flows that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

b. Financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

c. Legal, regulatory, contractual, political, business, or other factors, including asset-specific factors that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

d. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

e. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (in both absolute terms and relative to peers), or a change in the market for an entity's products or services due to the effects of obsolescence, demand, competition, or other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing business environment, and expected changes in distribution channels) that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset

f. Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.

350-30-35-18C

The examples included in the preceding paragraph are not all-inclusive, and an entity shall consider other relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset. An entity also shall consider the following to determine whether it is more likely than not that the indefinite-lived intangible asset is impaired:

a. Positive and mitigating events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset

b. If an entity has made a recent fair value calculation for an indefinite-lived intangible asset, the difference between that fair value and the then carrying amount

c. Whether there have been any changes to the carrying amount of the indefinite-lived intangible asset.

350-30-35-18D

An entity shall evaluate, on the basis of the weight of the evidence, the significance of all identified events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset for determining whether it is more likely than not that the indefinite-lived intangible asset is impaired. None of the individual examples of events and circumstances included in paragraph 350-30-35-18B(a) through (f) are intended to represent standalone events and circumstances that necessarily require an entity to calculate the fair value of an intangible asset. Also, the existence of positive and mitigating events and circumstances is not intended to represent a rebuttable presumption that an entity should not perform the quantitative impairment test as described in paragraph 350-30-35-19.

350-30-35-18E

If after assessing the totality of events and circumstances and their potential effect on significant inputs to the fair value determination an entity determines that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity need not calculate the fair value of the intangible asset and perform the quantitative impairment test in accordance with paragraph 350-30-35-19.

350-30-35-18F

If after assessing the totality of events and circumstances and their potential effect on significant inputs to the fair value determination an entity determines that it is more likely than not that the indefinite-lived intangible asset is impaired, then the entity shall calculate the fair value of the intangible asset and perform the quantitative impairment test in accordance with the following paragraph.

ASC 350 requires companies to test indefinite-lived intangible assets for impairment annually, and more frequently if indicators of impairment exist. ASC 350 also provides for an optional qualitative assessment to test indefinite-lived intangible assets for impairment that may allow companies to avoid calculating the assets' fair value each year. The qualitative assessment permits companies to assess whether it is more likely than not (i.e., a likelihood of greater than 50%) that an indefinite-lived intangible asset is impaired. If a company concludes based on the qualitative assessment that it is **not** more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it would not have to quantitatively determine the asset's fair value. While the qualitative assessment may change how companies perform impairment testing, it does not change the timing or measurement of impairments.

The qualitative assessment allows companies to first consider events and circumstances that may affect the fair value of an indefinite-lived intangible asset to determine whether it is necessary to perform the quantitative impairment test. The guidance requires companies to focus on the significant inputs used to determine fair value, since there are many different types of indefinite-lived intangible assets and diverse factors could affect the fair value for each asset.

Examples of events and circumstances that could affect the significant inputs include:

- Cost factors, such as increases in raw materials, labor or other costs that have a negative effect on future expected earnings and cash flows
- Financial performance, such as negative or declining cash flows, or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods
- Legal, regulatory, contractual, competitive, economic, political, business or other factors
- Other relevant entity-specific events, such as changes in management, key personnel, strategy or customers; contemplation of bankruptcy; or litigation
- Industry and market considerations, such as a deteriorating operating environment, increased competition, a decline in market-dependent multiples or metrics (both in absolute terms and relative to peers) or a change in the market for an entity's products or services due to obsolescence, demand, competition or other economic factors
- Macroeconomic conditions, such as a deterioration in general economic conditions, limited access to capital, foreign exchange rate fluctuations or other equity and credit market developments

None of these events or circumstances by itself would indicate that it is more likely than not that an indefinite-lived intangible asset is impaired, requiring a company to calculate the asset's fair value. However, a company must evaluate all events and circumstances, including positive or mitigating factors, that could affect the significant inputs used to determine fair value. Weighing the effect of various positive and negative factors may be challenging and will require companies to use significant judgment.

2.3.2.1.1 Five-step approach for applying the qualitative assessment to test indefinite-lived intangibles for impairment

While the specific factors that must be evaluated will vary depending on various factors, including the nature of the indefinite-lived asset, the company and relevant industry, we generally believe that the framework provided below will be useful for companies if they choose to apply the qualitative assessment. See Appendix C for an illustrative example on how to apply the framework.

2.3.2.1.1.1 Determine the starting point

Companies should use the most recent fair value calculation for an indefinite-lived intangible asset as the starting point for a qualitative assessment. The amount by which the fair value of the asset exceeded its carrying amount (i.e., excess fair value) in that calculation may support the continued use of the qualitative assessment despite the existence of negative evidence.

Companies with indefinite-lived intangible assets whose fair values have recently exceeded carrying amounts by significant margins likely will benefit from the qualitative assessment. For indefinite-lived intangible assets that have recently been impaired or don't have a significant margin between the carrying amount and fair value, companies may find it more cost-effective to move directly to the determination of fair value.

Companies also should consider external factors that could affect the significant inputs used to determine fair value. Evaluating trends in the overall economy and industry may be a relatively quick way for a company to assess whether it will be appropriate to apply the qualitative assessment for a particular indefinite-lived intangible asset.

Question 2.1 **At what point can data from the most recent fair value calculation no longer be used to evaluate the amount of excess fair value as a starting point when applying the qualitative assessment?**

There are no bright lines. Judgment will be required to evaluate the relevance of data in the most recent fair value calculation. Generally, the more time that has passed since the last fair value calculation, the more challenging it may be to support applying the qualitative assessment or arriving at an impairment conclusion based solely on a qualitative assessment. This is because an entity would need to consider a cumulative analysis of the changes in events and circumstances since the last quantitative impairment test.

2.3.2.1.1.2 Identify the most relevant drivers of fair value

In order to identify the most relevant drivers of fair value, companies should understand those assumptions that are most likely to affect the fair value of the indefinite-lived intangible asset. In doing so, a company should understand the valuation method(s) (e.g., relief from royalty method, Greenfield method) that are appropriate to determine the fair value of each indefinite-lived intangible asset and the assumptions that are most likely to affect each method. As a starting point, companies may want to consider the valuation method and drivers of fair value used in their last quantitative impairment test to determine whether they are still relevant.

Understanding the assumptions that most affect the fair value of an indefinite-lived intangible asset will enable companies to focus their efforts on evaluating the key assumptions of the qualitative assessment so that those factors are given more weight in the analysis. For example, drivers of fair value for an indefinite-lived intangible asset that is valued using the relief from royalty method may be revenue stream, royalty rate or the discount rate.

Companies also should consider that a significant input for a particular indefinite-lived intangible asset may be a component of a key assumption. For example, a discount rate typically is identified as a key assumption when applying the income approach to determine fair value. However, depending on the facts and circumstances, a company may identify an element of the discount rate, such as the risk premium or the risk-free interest rate, as the significant assumption.

Regardless of the historic method used to determine fair value for an indefinite-lived intangible asset, it is important to remember that the determination of fair value is based on a market participant concept.

The FASB acknowledged that applying the qualitative assessment may be challenging for indefinite-lived intangible assets subject to significant uncertainties that are out of a company's control, such as regulatory approval. These assets were not excluded from the scope of the guidance because the qualitative assessment is optional, and there may be circumstances when the assessment would be appropriate. See section 2.3.2.1.1.6 for additional considerations for performing a qualitative assessment for an IPR&D asset.

2.3.2.1.1.3 *Identify events and circumstances*

Once a company has determined its starting point and identified the most relevant drivers of fair value, it should identify and evaluate the events and circumstances that may have an effect on the fair value of its indefinite-lived intangible asset. The events and circumstances to be evaluated likely will include some of those outlined in ASC 350-30-35-18B, but also could include others. It is important to note that the qualitative assessment is not just a review of events that transpired during the current year; it's a cumulative analysis of all events and circumstances since the last time the indefinite-lived intangible's fair value was determined.

When identifying events and circumstances, a company should consider its disclosures in the business, risk factors and accounting policies sections of its annual report and other public filings. The assumptions a company uses in its qualitative assessment should be consistent with statements it has made to the public about the future of the business and with the projected financial information provided to its board of directors and other stakeholders. Companies also should consider information that has not yet been disclosed publicly, such as pending litigation or plans to enter new service lines or exit existing lines.

2.3.2.1.1.4 *Weigh the identified factors*

After identifying the events and circumstances that most affect the fair value of an indefinite-lived intangible asset, a company must weigh all factors in their totality to determine whether they support a qualitative conclusion that the asset is not impaired.

Companies should focus their qualitative assessments on the factors that most affect fair value. Using the most recent fair value determination as the starting point and focusing on cumulative changes in events and circumstances would indicate how a current-period fair value determination would compare with the last quantitative impairment test. Professional judgment must be applied to appropriately evaluate how positive and negative events and circumstances, as a whole, affect the significant inputs used to determine the fair value of an indefinite-lived intangible asset.

As previously discussed, the starting point for a qualitative assessment should be reviewing the most recent fair value determination and assessing the sensitivity of the difference between fair value and carrying amount based not only on recent events, but a cumulative analysis of all events and circumstances since the last time the indefinite-lived intangible's fair value was determined. The larger the margin, the easier it may be to come to a conclusion about the asset's fair value using the qualitative assessment. Conversely, the smaller the margin, the stronger the supporting evidence and the more robust the documentation likely would need to be to qualitatively conclude that it is more likely than not that the asset is not impaired. Similarly, companies should remember that as time passes from the date of the most recent fair value calculation, the less relevant that fair value calculation becomes.

Because the concept of fair value is quantitative (i.e., its end result is a value), a company might consider corroborating its qualitative conclusion with a quantitative analysis that is not necessarily a full quantitative fair value determination.

For example, to help support certain qualitative assertions about fair value using a relief from royalty method, a company could perform a high-level quantitative calculation that shows how far the assumed royalty rate would have to decrease before it would imply that the indefinite-lived intangible asset was impaired. Another example would be to update the most recent fair value determination with current prospective financial information to determine the sensitivity of the other significant inputs. However, it is important to remember that the qualitative assessment requires consideration of all facts and circumstances.

While it may be straightforward to determine the effect of an individual event or circumstance, weighing various factors against each other will require additional judgment. Due to the complexities of determining fair value (under any method), weighing the factors that could affect fair value could become challenging without some sort of sensitivity analysis to help quantify the effect of those factors that most affect fair value.

See section 3.1.1.2.4.1 for further discussion on evaluating the margin between excess fair value over carrying amount in the most recent calculation and the level of current-year documentation required.

2.3.2.1.1.5 Conclude

The final step is to conclude whether the asset is impaired. If a company concludes based on the qualitative assessment that it is more likely than not that an indefinite-lived intangible asset is impaired, it must quantitatively determine the fair value.

Companies will need to apply significant judgment to conclude that an indefinite-lived intangible asset is not impaired based on the qualitative assessment. Such analyses should be supported by clear documentation of the factors considered, including any necessary quantitative calculations. Depending on the complexity of the indefinite-lived intangible asset, a company also may require assistance from valuation specialists. Developing clear, contemporaneous documentation also will help a company support its conclusions if regulators raise questions.

2.3.2.1.1.6 Additional considerations for performing a qualitative assessment for an IPR&D asset

As noted in section 2.3.2.1.1.2, the Board acknowledged that it may be difficult to apply the qualitative assessment to assets that are subject to significant uncertainties (such as IPR&D assets). Companies that are considering applying the qualitative assessment for an IPR&D asset should evaluate the relevant events and circumstances to determine whether they can support a positive assertion that it is not more likely than not that the indefinite-lived intangible asset is impaired.

Because the list of events and circumstances included in ASC 350-30-35-18C is not all-inclusive, companies should consider other relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. If a company chooses to perform a qualitative assessment for an indefinite-lived IPR&D asset, in addition to the examples of events and circumstances listed in ASC 350, the existence of the following adverse events and circumstances could affect the significant inputs used to determine the fair value of an indefinite-lived IPR&D asset and should be considered in determining whether it is more likely than not that the indefinite lived IPR&D asset is impaired:

- Development of a competing drug (generic or branded), product or technology
- Changes in the legal framework covering patents, rights or licenses

- Change in the economic lives of similar assets
- A decision to postpone or delay the development of the IPR&D project
- Regulatory or other developments that could cause either delays in getting the developed product to market or significant additional costs to be incurred (for example, in the case of the life sciences industry, a requirement to conduct additional clinical trials)
- An increase in the projected technological risk of completion for the IPR&D project
- A decrease in the projected technological contribution of the IPR&D project to the overall future product, if the IPR&D project is a component of it
- A decrease in the projected market size for the developed product, reflected by a downward revision to the projected revenue or operating margin for the developed product (for example, in the case of the life sciences industry, indications that the potential patient population may be significantly smaller than originally anticipated)

In addition to the factors above, entities in the life sciences industry should consider:

- Failure of the drug's efficacy after a mutation in the disease that it is supposed to treat
- Advances in medicine or technology, or both, that affect the medical treatments
- Changes in anticipated pricing or third-party payer reimbursement that cause a significant change to expected revenues

Entities in the software and electronic device industries should also consider overall changes in their plans for existing, in-process and future products.

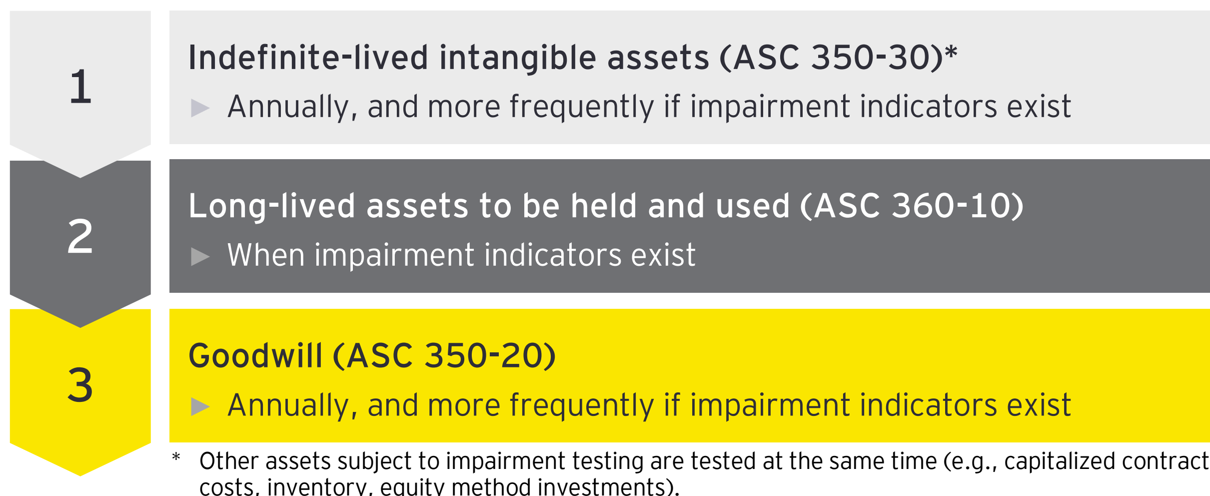
Similar to the guidance in ASC 350, this list of events and circumstances is not all-inclusive. All relevant events and circumstances that could affect the significant inputs used to determine the fair value of an IPR&D asset should be considered when performing a qualitative assessment.

We believe that the qualitative assessment may be used with greater frequency when the IPR&D project is nearing successful completion or is completed successfully and the asset is tested for impairment one last time as an indefinite-lived intangible asset. In such situations, the uncertainty previously associated with the asset likely will have been reduced or eliminated.

2.3.2.2 Order of impairment testing

Sometimes an indefinite-lived intangible asset, long-lived assets to be held and used (including finite-lived intangible assets), and the goodwill of the reporting unit in which those assets reside may all need to be tested for impairment at the same time (e.g., due to an impairment indicator that affects all of them). In that scenario, the indefinite-lived intangible asset is tested for impairment in accordance with ASC 350-30 first, then the long-lived asset group is tested for impairment in accordance with ASC 360 and goodwill is tested for impairment at the reporting unit level in accordance with ASC 350-20 last. The reason the order is important is because the impairment test of long-lived asset groups under ASC 360 and goodwill under ASC 350-20 is dependent on the carrying amounts of the underlying assets first being properly adjusted for impairment.

The graphic below summarizes the order in which assets generally need to be tested for impairment and the frequency of those tests.



* Other assets subject to impairment testing are tested at the same time (e.g., capitalized contract costs, inventory, equity method investments).

See section 3.7 for more discussion on the ordering of impairment tests. See section 3.5 for additional guidance on the frequency of goodwill impairment tests. See our FRD, ***Impairment or disposal of long-lived assets***, for additional guidance on the impairment testing for long-lived assets to be held and used.

When an asset group is held for sale, the order of impairment testing differs. Refer to sections 2.3.1.4 and 4.2.3.2 of our FRD, ***Impairment or disposal of long-lived assets***, for further discussion.

2.3.2.3 Impairment testing of recently acquired indefinite-lived intangible assets

There is no requirement to test an indefinite-lived intangible asset for impairment on the date of acquisition. For the same reasons discussed in section 3.11.4 on impairment testing of recently acquired goodwill, an entity should test an acquired indefinite-lived intangible asset for impairment if impairment indicators exist subsequent to the acquisition date. In addition, if the annual impairment assessment date follows shortly after an acquisition, an indefinite-lived intangible asset impairment test should be performed irrespective of the status of the accounting for the business combination (i.e., whether the measurement period has closed).

2.3.2.4 Impairment considerations for acquired outlicensed arrangements that are classified as IPR&D assets

In the life sciences industry, it is common for an acquirer to acquire an outlicensing arrangement in a business combination. Under the terms of the outlicensing arrangement, the target and a third party would have agreed to jointly develop, manufacture, distribute and sell a drug candidate. Typically, the target would have received an up-front payment from the third party and would be entitled to future milestone payments and royalty payments if the drug is ultimately approved for commercialization (i.e., FDA approval). If the acquirer will play an active role in the future development of the outlicensed asset after the acquisition, the acquirer would record the asset as an IPR&D asset in the business combination. Further, the IPR&D asset would be valued under an income approach considering all anticipated cash flows.

For additional guidance on accounting for acquired IPR&D assets in a business combination, see section 4.2.6 of our FRD, ***Business combinations***. In such situations, companies should be aware that the receipt of a significant milestone payment could potentially trigger an interim impairment charge. Illustration 2-7 below demonstrates this:

Illustration 2-7: Effect of achieving a technical milestone on impairment test of an indefinite-lived IPR&D asset

On 15 April 20X2, Company A acquired Company B. As of the acquisition date, Company B had an existing outlicensing arrangement with a third party. Company A intends to play an active role in the development of that outlicensed asset (i.e., a drug candidate) and, therefore, records the asset as an indefinite-lived IPR&D asset (rather than a finite-lived contract-based intangible asset). The terms of the outlicensing arrangement provided for the third party to make payments to Company B upon the achievement of certain development milestones, along with royalty payments based on commercial sales of the drug candidate after regulatory approval. At the acquisition date, receipt of the anticipated payments associated with the outlicensed project were considered in the valuation and, therefore, increased the expected future cash flows that were considered in estimating the fair value of the IPR&D asset. On 30 July 20X2 (before Company A's impairment testing date), Company B receives a significant milestone payment from the third party for the achievement of one development milestone for this drug candidate.

Analysis:

Assuming there are no other developments that could mitigate the resulting decline in the anticipated cash inflows (e.g., a reduction in anticipated cash outflows, increase in the project's probability of success), the fair value of the outlicensed IPR&D asset likely would decline. Company A would have to evaluate whether the achievement of the development milestone and receipt of the payment makes it more likely than not that the fair value of the outlicensed IPR&D asset is less than the asset's carrying amount, which would lead to an impairment loss.

2.3.3 Unit of accounting

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-21

Separately recorded indefinite-lived intangible assets, whether acquired or internally developed, shall be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another.

350-30-35-22

Determining whether several indefinite-lived intangible assets are essentially inseparable is a matter of judgment that depends on the relevant facts and circumstances. The indicators in paragraph 350-30-35-23 shall be considered in making that determination. None of the indicators shall be considered presumptive or determinative.

350-30-35-23

Indicators that two or more indefinite-lived intangible assets shall be combined as a single unit of accounting for impairment testing purposes are as follows:

a. The intangible assets were purchased in order to construct or enhance a single asset (that is, they will be used together).

b. Had the intangible assets been acquired in the same acquisition they would have been recorded as one asset.

c. The intangible assets as a group represent the highest and best use of the assets (for example, they yield the highest price if sold as a group). This may be indicated if it is unlikely that a substantial portion of the assets would be sold separately or the sale of a substantial portion of the intangible assets individually would result in a significant reduction in the fair value of the remaining assets as a group.

d. The marketing or branding strategy provides evidence that the intangible assets are complementary, as that term is used in paragraph 805-20-55-18.

350-30-35-24

Indicators that two or more indefinite-lived intangible assets shall not be combined as a single unit of accounting for impairment testing purposes are as follows:

a. Each intangible asset generates cash flows independent of any other intangible asset (as would be the case for an intangible asset licensed to another entity for its exclusive use).

b. If sold, each intangible asset would likely be sold separately. A past practice of selling similar assets separately is evidence indicating that combining assets as a single unit of accounting may not be appropriate.

c. The entity has adopted or is considering a plan to dispose of one or more intangible assets separately.

d. The intangible assets are used exclusively by different asset groups (see the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10).

e. The economic or other factors that might limit the useful economic life of one of the intangible assets would not similarly limit the useful economic lives of other intangible assets combined in the unit of accounting.

350-30-35-26

All of the following shall be included in the determination of the unit of accounting used to test indefinite-lived intangible assets for impairment:

a. The unit of accounting shall include only indefinite-lived intangible assets—those assets cannot be tested in combination with **goodwill** or with a finite-lived asset.

b. The unit of accounting cannot represent a group of indefinite-lived intangible assets that collectively constitute a business or a **nonprofit activity**.

c. A unit of accounting may include indefinite-lived intangible assets recorded in the separate financial statements of consolidated subsidiaries. As a result, an impairment loss recognized in the consolidated financial statements may differ from the sum of the impairment losses (if any) recognized in the separate financial statements of those subsidiaries.

d. Subparagraph superseded by Accounting Standards Update No. 2017-04.

350-30-35-27

If, based on a change in the way in which intangible assets are used, an entity combines as a unit of accounting for impairment testing purposes indefinite-lived intangible assets that were previously tested for impairment separately, those intangible assets shall be separately tested for impairment in accordance with paragraphs 350-30-35-18 through 35-20 prior to being combined as a unit of accounting.

In reaching a consensus on EITF 02-7, which was codified into the preceding excerpts from ASC 350, the EITF agreed that indefinite-lived intangible assets, whether acquired or internally developed, "should be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another." The determination of whether indefinite-lived intangible assets are "essentially inseparable" from one another will require judgment based on all relevant facts and circumstances. ASC 350-30-35-23 includes a list of indicators to aid in making that determination. None of the indicators should be considered presumptive or determinative. ASC 350-30-35-26 also provides general observations of the unit of accounting for indefinite-lived intangible assets. The conclusion to aggregate multiple indefinite-lived intangible assets into a single accounting unit is not a one-time evaluation. Rather, it is subject to reconsideration and may change depending on the facts and circumstances.

If a company determines that it may combine into a single unit of accounting two or more indefinite-lived intangible assets that were previously tested for impairment separately, the company first tests those intangible assets separately for impairment in accordance with ASC 350-30-35-18 through 35-20.

The following examples illustrate the determination of the unit of accounting to use in impairment testing for indefinite-lived intangible assets.

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other Than Goodwill

Implementation Guidance and Illustrations

Example 10: Easements

350-30-55-29

This Example illustrates the guidance in paragraphs 350-30-35-21 through 35-24.

350-30-55-30

Entity A is a distributor of natural gas. Entity A has two self-constructed pipelines, the Northern pipeline and the Southern pipeline. Each pipeline was constructed on land for which Entity A owns perpetual easements that Entity A evaluated under Topic 842 and determined do not meet the definition of a **lease** under that Topic (because those easements are perpetual and, therefore, do not convey the right to use the underlying land for a period of time). The Northern pipeline was constructed on 50 easements acquired in 50 separate transactions. The Southern pipeline was constructed on 100 separate easements that were acquired in a business combination and were recorded as a single asset. Although each pipeline functions independently of the other, they are contained in the same **reporting unit**. Operation of each pipeline is directed by a different manager. There are discrete, identifiable cash flows for each pipeline; thus, each pipeline and its related easements represent a separate asset group under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10. While Entity A has no current plans to sell or otherwise dispose of any of its easements, Entity A believes that if either pipeline was sold, it would most likely convey all rights under the easements with the related pipeline.

350-30-55-31

Based on an evaluation of the circumstances, Entity A would have two units of accounting for purposes of testing the easements for impairment — the collection of easements supporting the Northern pipeline and the collection of easements supporting the Southern pipeline. The 50 easements supporting the Northern pipeline represent a single unit of accounting as evidenced by the fact that they are collectively used together in a single asset group (see paragraphs 360-10-35-23 through 35-26), if acquired in a single transaction, they would have been recorded as one asset, and if sold, they would likely be sold as a group with the related pipeline. For the same reasons, the easements supporting the Southern pipeline would represent a single unit of accounting.

350-30-55-32

Because the collective land easements underlying the Northern and Southern pipelines generate cash flows independent of one another and are used exclusively by separate asset groups under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10, they should not be combined into a single unit of accounting.

Illustration 2-8: Trade name

Company Y purchases an international vacuum cleaner manufacturer, Company A, which sells vacuums under a well-known trade name. The operations of Company A are conducted through separate legal entities in three different countries with each of those legal entities owning the registered trade name used in that country. When the business combination was recorded, Company Y recorded three separate intangible trade name assets because separate financial statements are required to be prepared for each separate legal entity. There are separate identifiable cash flows for each country, and each country represents an asset group under ASC 360-10. A single brand manager is responsible for the Company A trade name, the value of which is expected to be recovered from the worldwide sales of Company A's products.

Analysis:

The three separately recorded trade name assets should be combined into a single unit of accounting for purposes of testing the acquired trade name for impairment. The three registered trade names were acquired in the same business combination and, absent the requirement to prepare separate financial statements for subsidiaries, would have been recorded as a single asset. The trade name is managed by a single brand manager. If sold, Company Y would most likely sell all three legally registered trade names as a single asset.

Illustration 2-9: Brands

Company Z manufactures and distributes cereals under two different brands, Brand A and Brand B. Both brands were acquired in the same business combination. Company Z recorded two separate intangible assets representing Brand A and Brand B. Each brand represents a group of complementary indefinite-lived intangible assets including the trademark, the trade dress and a recipe. Brand A has two underlying trade names for its Honey and Cinnamon cereals. The trade name and recipe of Cinnamon were internally generated subsequent to the acquisition of Brand A.

Sales of Honey have decreased while sales of Cinnamon have increased over the past several years. Despite the decline in sales of Honey, the combined sales of Honey and Cinnamon have increased at the levels expected by management. Sales of Brand B also have increased at expected levels. There are discrete cash flows for Honey, Cinnamon and Brand B, and each represents a separate asset group under ASC 360-10. Both Honey and Cinnamon are managed by one brand manager. A separate brand manager is responsible for Brand B; however, there are some shared resources used by these groups, such as procurement. While Company Z has no current plans to sell its brands or exit the cereal business, it believes if it ever did, it would exit the cereal business in its entirety.

Analysis:

Company Z would have two units of accounting for purposes of testing the acquired brands for impairment. Brand A's purchased Honey and internally generated Cinnamon trademarks should be combined as a single unit of accounting for purposes of impairment testing. The intangible asset associated with the Cinnamon trademark is simply a variation of the previously acquired Brand A Honey trademark. Although they are associated with different asset groups under ASC 360-10, they are managed by a single brand manager. Company Z would consider Brand B to be a separate unit of accounting for purposes of testing impairment because that brand is managed separately from Brand A and is used exclusively by a separate asset group under ASC 360-10.

2.3.3.1 Allocating an impairment loss to an indefinite-lived intangible asset when removing the asset from a single accounting unit

As noted above, the EITF agreed that indefinite-lived intangible assets, whether acquired or internally developed, "should be combined into a single unit of accounting for purposes of testing impairment if they are operated as a single asset and, as such, are essentially inseparable from one another." An indefinite-lived intangible asset may need to be removed from the accounting unit if it is disposed of, the accounting unit is reconsidered or one or more of the separate indefinite-lived intangible asset(s) within the accounting unit is now considered finite-lived rather than indefinite-lived. There is no specific guidance[8] regarding how to determine the carrying amount of an indefinite-lived intangible asset when it is removed from the accounting unit that had previously recognized an impairment charge.

Without specific guidance, we believe that the carrying amount of the indefinite-lived intangible asset removed from the accounting unit should be based on the historical carrying amount when the asset was placed into the accounting unit, less the allocation of any impairment recognized by the accounting unit. The allocation of any impairment loss should be based on a pro rata basis using the relative historical carrying amount of the individual indefinite-lived intangible assets. If the historical carrying amount of the indefinite-lived intangible asset is not readily available, the entity should establish a reasonable and supportable method to determine the historical carrying amount at the time of removal of the asset. Because under ASC 350-30, accounting units are created solely for impairment testing purposes, the individual indefinite-lived intangible assets remain as separately recorded assets. This approach is consistent with that described in ASC 360-10-35-28 for the allocation of an impairment loss to individual long-lived assets within an asset group.

Illustration 2-10: Allocation of an indefinite-lived intangible asset impairment loss

XYZ Corp has grouped four licenses (A, B, C and D) in an accounting unit for impairment purposes based on the requirements in ASC 350. XYZ Corp has no past practice of selling licenses separately. Licenses A and B were acquired together and were valued at $200 and $250, respectively. License C was acquired for $150 and License D was acquired for $400 in two separate transactions.

Assume that, subsequent to the acquisition of the licenses, XYZ Corp recorded an impairment charge of $100 related to the accounting unit. Assume that License B was sold separately.

Analysis:

In this case, the carrying amount of the license sold (License B) would be determined as follows: License B's pro rata allocation of impairment loss of $25 [($250/$1000) x $100] would be subtracted from its original carrying amount of $250. This results in a carrying amount of the license sold of $225.

[8] The EITF Agenda Committee Report dated 29–30 September 2004 acknowledged that the EITF considered adding to its agenda a discussion on how to determine the carrying amount of an intangible asset that previously was combined with other indefinite-lived intangible assets for impairment purposes. The Agenda Committee, however, decided not to add this issue to the EITF's agenda.

2.4 Useful life of an acquired intangible asset that will not be fully utilized (defensive intangible asset)

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Subsequent Measurement

350-30-35-5A

This guidance addresses the application of paragraphs 350-30-35-1 through 35-4 to a **defensive intangible asset** other than an intangible asset that is used in research and development activities. A defensive intangible asset shall be assigned a useful life that reflects the entity's consumption of the expected benefits related to that asset. The benefit a reporting entity receives from holding a defensive intangible asset is the direct and indirect cash flows resulting from the entity preventing others from realizing any value from the intangible asset (defensively or otherwise). An entity shall determine a defensive intangible asset's useful life, that is, the period over which an entity consumes the expected benefits of the asset, by estimating the period over which the defensive intangible asset will diminish in fair value. The period over which a defensive intangible asset diminishes in fair value is a proxy for the period over which the reporting entity expects a defensive intangible asset to contribute directly or indirectly to the future cash flows of the entity.

350-30-35-5B

It would be rare for a defensive intangible asset to have an indefinite life because the fair value of the defensive intangible asset will generally diminish over time as a result of a lack of market exposure or as a result of competitive or other factors. Additionally, if an acquired intangible asset meets the definition of a defensive intangible asset, it shall not be considered immediately abandoned.

Implementation Guidance and Illustrations

350-30-55-1B

The determination of whether an intangible asset is a defensive intangible asset is based on the intentions of the reporting entity and that determination may change as the reporting entity's intentions change. For example, an intangible asset that was accounted for as a defensive intangible asset on the date of acquisition will cease to be a defensive asset if the entity subsequently decides to actively use the asset. Examples 9C and 9D (see paragraphs 350-30-55-28G through 55-28L) illustrate the determination of whether an acquired intangible asset is a defensive intangible asset.

Assets acquired in a business combination must be measured at fair value using market participant (not entity specific) assumptions in accordance with ASC 805 and ASC 820. This includes defensive intangible assets, which are assets that the acquirer does not intend to actively use but intends to hold to prevent others from obtaining access to that asset. A defensive intangible asset could include any of the following:

- An asset that the entity will never actively use
- An asset that will be used by the entity during a transition period when the intention of the entity is to discontinue the use of the asset

In a business combination, an acquirer must recognize at fair value all acquired intangible assets, including those it intends to hold for defensive purposes. Similarly, defensive intangible assets acquired in asset acquisitions will be recognized based on their relative fair values at acquisition.

An issue arises in determining the appropriate unit of account and the appropriate useful life for defensive intangible assets. ASC 350-30 provides guidance on the subsequent accounting for defensive intangible assets and requires an entity to assign a useful life in accordance with ASC 350-30-35-1 through 35-5.

The EITF, in reaching a consensus on EITF 08-7 (codified in ASC 350-30), concluded that intangible assets that an acquirer intends to use as defensive assets are a separate unit of account from the existing intangible assets of the acquirer. The EITF also concluded that a defensive intangible asset should be amortized over the period it is expected to contribute directly or indirectly to the entity's future cash flows. That period is the period that the asset provides significant value to the reporting entity but would not extend beyond the date the reporting entity effectively waives its rights to the intangible asset (i.e., is not using the asset, either directly or defensively).

This does not preclude the acquirer from assigning an indefinite life to the defensive intangible asset; however, the EITF concluded that the assignment of an indefinite life to a defensive intangible asset likely would be rare. In reaching its conclusion, the EITF stated that the acquirer's intention to not actively use the intangible asset, but instead to maintain it for defensive purposes, is a form of use of the intangible asset. Additionally, if an acquired intangible asset meets the definition of a defensive intangible asset, it cannot be considered immediately abandoned.

We believe that in practice it may prove difficult to estimate the period over which the fair value of the defensive intangible asset diminishes. The process of estimating the useful life of defensive intangible assets will require close collaboration with valuation professionals.

2.5 Transfer or sale of intangible assets (updated June 2024)

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Overall

Derecognition

350-10-40-1

An entity shall account for the derecognition of a nonfinancial asset, including an in substance nonfinancial asset, within the scope of this Topic in accordance with Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets, unless a scope exception from Subtopic 610-20 applies. For example, the derecognition of a nonfinancial asset in a **contract** with a **customer** shall be accounted for in accordance with Topic 606 on revenue from contracts with customers.

350-10-40-2

An entity shall account for the derecognition of a subsidiary or a group of assets that is either a **business** or **nonprofit activity** in accordance with the derecognition guidance in Subtopic 810-10.

350-10-40-3

If an entity transfers a nonfinancial asset in accordance with paragraph 350-10-40-1, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all of the criteria in paragraph 606-10-25-1. Until all of the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do all of the following:

a. Report the nonfinancial asset in its financial statements

b. Recognize amortization expense as a period cost for those assets with a finite life

c. Apply the impairment guidance in Section 350-30-35.

Pending Content:

Transition Date: *(P) December 16, 2024; (N) December 16, 2024* | **Transition Guidance:** 350-60-65-1

If an entity transfers a nonfinancial asset in accordance with paragraph 350-10-40-1, and the contract does not meet all of the criteria in paragraph 606-10-25-1, the entity shall not derecognize the nonfinancial asset and shall follow the guidance in paragraphs 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all of the criteria in paragraph 606-10-25-1. Until all of the criteria in paragraph 606-10-25-1 are met, the entity shall continue to do any of the following, as applicable:

a. Report the nonfinancial asset in its financial statements

b. Recognize amortization expense as a period cost for those assets with a finite life

c. Apply the impairment guidance in Section 350-30-35

d. For crypto assets accounted for in accordance with Subtopic 350-60, recognize gains and losses from remeasurement.

350-10-40-4

Additionally, see the derecognition guidance in Section 350-20-40 regarding the disposal of all or a portion of a reporting unit.

An entity accounts for the derecognition of a nonfinancial asset (and an in substance nonfinancial asset) within the scope of ASC 350 in accordance with ASC 610-20, unless a scope exception applies. An entity accounts for the derecognition of a subsidiary or a group of assets that is either a business or nonprofit activity in accordance with the derecognition guidance in ASC 810-10.

If an entity transfers a nonfinancial asset in accordance with ASC 350-10-40-1, and the contract does not meet all of the criteria in ASC 606-10-25-1, the entity does not derecognize the nonfinancial asset and follows the guidance in ASC 606-10-25-6 through 25-8 to determine if and when the contract subsequently meets all of the criteria in ASC 606-10-25-1. Until all of the criteria in ASC 606-10-25-1 are met, the entity continues to do all of the following:

- Report the nonfinancial asset in its financial statements
- Recognize amortization expense as a period cost for those assets with a finite life
- Apply the impairment guidance in ASC 350-30-35
- After adoption of ASU 2023-08, recognize gains and losses from remeasurement of crypto assets accounted for in accordance with ASC 350-60 (see Appendix B for additional information about the subsequent accounting for crypto assets in accordance with ASC 350-60)

See section 3.14 for guidance on the disposal of all or a portion of a reporting unit. Refer to our FRD, ***Gains and losses from the derecognition of nonfinancial assets (ASC 610-20)***, for further information on the derecognition of a nonfinancial asset or an in substance nonfinancial asset, and see section 19 of our FRD, ***Consolidation***, for further information on the derecognition of a subsidiary or a group of assets that is either a business or nonprofit activity.

3 Subsequent accounting for goodwill

3.1 Measurement and recognition of goodwill impairment

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Overall Accounting for Goodwill

350-20-35-1

Goodwill shall not be amortized. Instead, goodwill shall be tested at least annually for impairment at a level of reporting referred to as a **reporting unit**. (Paragraphs 350-20-35-33 through 35-46 provide guidance on determining reporting units.)

350-20-35-2

Impairment of goodwill is the condition that exists when the carrying amount of a reporting unit that includes goodwill exceeds its fair value. A goodwill impairment loss is recognized for the amount that the carrying amount of a reporting unit, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit. However, an entity shall consider the related income tax effect from any tax deductible goodwill, if applicable, in accordance with paragraph 350-20-35-8B when measuring the goodwill impairment loss.

350-20-35-3

An entity may first assess qualitative factors, as described in paragraphs 350-20-35-3A through 35-3G, to determine whether it is necessary to perform the quantitative goodwill impairment test discussed in paragraphs 350-20-35-4 through 35-13. If determined to be necessary, the quantitative impairment test shall be used to identify goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any).

Under ASC 805, goodwill is recognized initially as an asset in the financial statements and is initially measured as any excess of the acquisition-date amounts[9] of the consideration transferred, any noncontrolling interest and any equity interest previously held by the acquirer in the acquiree over the acquisition-date amounts of the net identifiable assets acquired. Any acquired intangible assets that do not meet the criteria for recognition as a separate asset are included in goodwill. For further information, please refer to our FRD, ***Business combinations***.

ASC 350-20 addresses the subsequent accounting for goodwill, including the requirement that goodwill should not be amortized but should be tested for impairment, at least annually, at a level within the company referred to as the reporting unit. Goodwill cannot be tested for impairment at any level within the company other than the reporting unit level. ASC 350-20 outlines the methodology used to determine if goodwill has been impaired and to measure any loss resulting from an impairment. These requirements are discussed in detail in the following sections.

[9] Generally, business combination accounting under ASC 805 requires all consideration transferred, any noncontrolling interest, any previously held equity interests and assets acquired and liabilities assumed to be measured at their acquisition-date fair values, subject to limited exceptions. Refer to our FRD, ***Business combinations***, for additional guidance on accounting for business combinations.

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Recognition and Measurement of an Impairment Loss

Qualitative Assessment

350-20-35-3A

An entity may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount, including goodwill.

350-20-35-3B

An entity has an unconditional option to bypass the qualitative assessment described in the preceding paragraph for any reporting unit in any period and proceed directly to performing the quantitative goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period.

Quantitative Impairment Test

350-20-35-4

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

350-20-35-5

The guidance in paragraphs 350-20-35-22 through 35-24 shall be considered in determining the fair value of a reporting unit.

350-20-35-6

If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired.

350-20-35-8

If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. Additionally, an entity shall consider the income tax effect from any tax deductible goodwill on the carrying amount of the reporting unit, if applicable, in accordance with paragraph 350-20-35-8B when measuring the goodwill impairment loss.

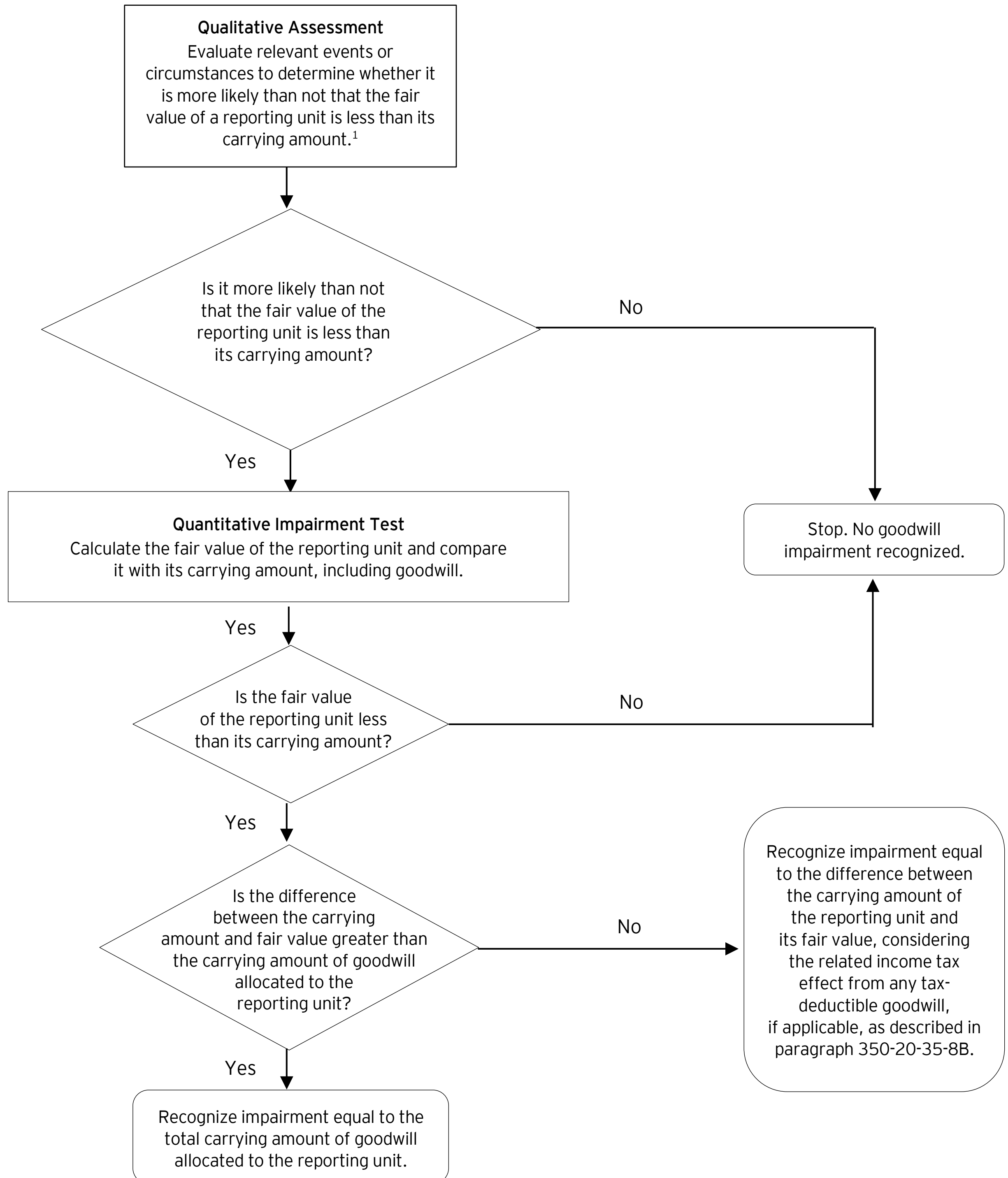
350-20-35-12

After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis.

350-20-35-13

Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is recognized.

Goodwill should not be amortized but should be tested for impairment at the reporting unit level at least annually in accordance with ASC 350-20. Impairment is the condition that exists when the carrying amount of a reporting unit, including goodwill, exceeds its fair value. The fair value of a reporting unit must be consistent with the definition of fair value under ASC 820 and must include both the controlling and noncontrolling interests in the reporting unit. Goodwill is tested for impairment in accordance with the following flowchart, taken from ASC 350-20-55-25:



[1] An entity has the unconditional option to skip the qualitative assessment and proceed directly to calculating the fair value of the reporting unit and comparing that value with its carrying amount, including goodwill.

3.1.1 Optional qualitative assessment

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Qualitative Assessment

350-20-35-3C

In evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, an entity shall assess relevant events and circumstances. Examples of such events and circumstances include the following:

a. Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets

b. Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development

c. Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows

d. Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods

e. Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation

f. Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit

g. If applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers).

350-20-35-3D

If, after assessing the totality of events or circumstances such as those described in the preceding paragraph, 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.

350-20-35-3E

If, after assessing the totality of events or circumstances such as those described in paragraph 350-20-35-3C(a) through (g), an entity determines that it is 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.

350-20-35-3F

The examples included in paragraph 350-20-35-3C(a) through (g) are not all-inclusive, and an entity shall consider other relevant events and circumstances that affect the fair value or carrying amount of a reporting unit in determining whether to perform the quantitative goodwill impairment test. An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the comparison of a reporting unit's fair value with its carrying amount. An entity should place more weight on the events and circumstances that most affect a reporting unit's fair value or the carrying amount of its net assets. An entity also should consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity has a recent fair value calculation for a reporting unit, it also should include as a factor in its consideration the difference between the fair value and the carrying amount in reaching its conclusion about whether to perform the quantitative goodwill impairment test.

350-20-35-3G

An entity shall evaluate, on the basis of the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. None of the individual examples of events and circumstances included in paragraph 350-20-35-3C(a) through (g) are intended to represent standalone events or circumstances that necessarily require an entity to perform the quantitative goodwill impairment test. Also, the existence of positive and mitigating events and circumstances is not intended to represent a rebuttable presumption that an entity should not perform the quantitative goodwill impairment test.

ASC 350 requires companies to test goodwill for impairment annually and more frequently if indicators of impairment exist. Testing goodwill for impairment requires companies to compare the fair value of a reporting unit with its carrying amount, including goodwill. ASC 350 also provides for an optional qualitative assessment for testing goodwill for impairment (qualitative assessment) that may allow companies to skip the annual quantitative impairment test. The qualitative assessment permits companies to assess whether it is more likely than not (i.e., a likelihood of greater than 50%) that the fair value of a reporting unit is less than its carrying amount. If a company concludes based on the qualitative assessment that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the company is required to perform the quantitative impairment test. If a company concludes based on the qualitative assessment that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it has completed its goodwill impairment test and does not need to perform the quantitative impairment test.

While the qualitative assessment may change how goodwill impairment testing is performed, it does not affect the timing or measurement of goodwill impairment.

It is important to understand that the ASC 350 impairment model differs from an other-than-temporary-impairment model. Under ASC 350, management must analyze the relationship between a reporting unit's fair value and its carrying amount as of the impairment test date. This analysis does not include a determination by management of whether a decline in fair value is temporary.

3.1.1.1 Key considerations

The qualitative assessment gives companies the option to evaluate, based on the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. It does not prescribe how to weigh positive and negative evidence when both affect the fair value of a reporting unit, nor does it define the term "significance."

3.1.1.1.1 *Weighing evidence (updated June 2023)*

ASC 350 directs companies to place more weight on the events and circumstances that most affect a reporting unit's fair value or the carrying amount of its net assets. Weighing the effect of various positive and negative factors may be challenging and will require the use of significant judgment. Companies will have to monitor and evaluate all positive and negative events that have occurred since the most recent quantitative impairment test.

3.1.1.1.2 *Meaning of 'significant'*

The FASB refers to but does not define the concept of "significant" in ASC 350 or in the Basis for Conclusions of ASU 2011-08. Accordingly, questions have arisen about whether there are any bright-line rules for performing qualitative assessments (i.e., whether the existence of any particular circumstance would always — or never — result in the requirement to perform the annual quantitative impairment test).

The Board did not establish any bright-line rules or provide an example of events or circumstances that would always result in the conclusion that a quantitative impairment test is or is not necessary. Similarly, there are no bright-line rules when using the term significant in other contexts (e.g., evaluating whether the fair value exceeded the carrying amount by a significant amount in the most recent quantitative impairment test, evaluating whether a change in an event or circumstance during the period has a significant effect on fair value). Companies will have to evaluate all facts and circumstances to determine whether they believe, based on all factors, it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

3.1.1.1.3 *List of events and circumstances*

ASC 350-20-35-3C includes a list of events and circumstances to consider when evaluating a reporting unit's goodwill for impairment. The factors considered for impairment evaluations were developed by the Board to reflect the reasons that companies have disclosed as the causes of goodwill impairments. The list of events and circumstances is as follows:

- Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates or other developments in equity and credit markets
- Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development
- Cost factors such as increases in raw materials, labor or other costs that have a negative effect on earnings and cash flows
- Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods
- Other relevant entity-specific events such as changes in management, key personnel, strategy or customers; contemplation of bankruptcy; or litigation
- Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit
- A sustained decrease in share price (consider in either absolute terms or relative to peers)

None of the factors listed above is determinative. In other words, the existence of one of these negative factors by itself would not necessarily indicate that a quantitative impairment test must be performed. Instead, a company must evaluate how significant each of the identified factors could be to the fair value or carrying amount of a reporting unit and weigh those factors against any positive or mitigating factors relevant to that reporting unit. In addition, ASC 350-20-35-3F states clearly that the events and circumstances it describes are only examples of factors a company should consider. Companies will need to identify the factors that most affect a reporting unit's fair value.

3.1.1.2 Applying the qualitative assessment

While the specific factors that must be evaluated will vary depending on the reporting unit, company and industry, we generally believe that the framework provided below will be useful for companies if they choose to apply the qualitative assessment.

3.1.1.2.1 Determine the starting point

We believe that companies should use the most recent calculation of a reporting unit's fair value as a starting point for the qualitative assessment. In doing so, companies should consider the amount of excess fair value in that calculation as well as developments in its own operations, the industry in which it operates and overall macroeconomic factors that could have affected fair value since the date of that calculation.

3.1.1.2.1.1 Look at the excess fair value

The margin between the fair value and carrying amount in the most recent fair value calculation may indicate the amount and severity of negative evidence that can be absorbed by a reporting unit. However, as noted in section 3.1.1.1.2, there is no percentage threshold that constitutes a significant amount of excess fair value over carrying amount. Judgment must be applied to evaluate how much negative evidence may cause a company to conclude that it can no longer make a more-likely-than-not assertion about the fair value of a reporting unit.

Accordingly, we generally believe that companies that have reporting units whose fair values have recently exceeded their carrying amounts by significant margins are likely to benefit from the qualitative assessment. Companies that have recently recognized goodwill impairments or that do not have a significant margin between the carrying amount and fair value of a reporting unit may find it challenging to apply the qualitative assessment and may elect to move directly to the quantitative impairment test.

3.1.1.2.1.2 Consider the market

When companies begin thinking about performing a goodwill impairment evaluation, they often look at company-specific information, such as current-year and future financial performance. While this information is crucial for determining whether it is more likely than not that a reporting unit's fair value is less than its carrying amount, companies also must consider external factors that could affect the fair value or carrying amount of their reporting units.

Illustration 3-1: Consider the market

Assume Company A is a public company with a reporting unit (RU) operating in the telecommunications industry. In its qualitative assessment, Company A determined the following:

- The fair value of RU in the prior year's quantitative impairment test exceeded its carrying amount by 22%.
- RU's revenues and operating margins increased 10% over the prior year and exceeded current-year projections by 2%.
- RU gained two large customers in the current year, which account for 6% of current-year revenues.

Based on only these facts, Company A may conclude that it does not need to perform a quantitative impairment test for RU. However, the following also occurred since the last fair value calculation was performed:

- Overall equity markets are down 10% in the current year.
- RU's competitors have experienced revenue growth of 15% to 20% over the prior year.
- Despite gaining two large customers, RU still lost 2% market share.

Based on the company-specific information alone, Company A appears to have a sufficient level of positive evidence to support a qualitative assertion that RU's goodwill is not impaired. However, once the industry and market information is considered, the conclusion requires further consideration. With this negative information (overall market decline, RU growing slower than industry and loss of market share), it is clear that Company A must perform further analysis to determine the significance that each of these factors and other relevant information may have on the fair value of RU and weigh such factors into its qualitative assessment.

Illustration 3-2: Consider the market

Assume the same facts as in Illustration 3-1, except that the industry and market information since the last fair value calculation was performed is as follows:

- Overall equity markets are up 5% in the current year.
- Other telecom companies operating in RU's industry experienced revenue and operating margin growth of 3% to 5% over the prior year.
- The two new customers caused RU's market share to increase by 10%.

With this predominantly positive industry and market information, and assuming there are no further negative factors to consider, Company A may have a sufficient level of positive evidence to support a qualitative assertion that it does not need to perform the annual quantitative impairment test.

Weighing the positive and negative events that have occurred since the last fair value calculation may be difficult, particularly when there are multiple positive and negative factors. Professional judgment must be applied to all facts and circumstances to appropriately evaluate how such factors, in their totality, ultimately affect the fair value of a reporting unit.

Question 3.1 **At what point can data from the most recent fair value calculation no longer be used to evaluate the amount of excess fair value as a starting point when applying the qualitative assessment?**

There are no bright lines. Judgment will be required to evaluate the relevance of data in the most recent fair value calculation. Generally, the more time that has passed since the last fair value calculation, the more challenging it may be to support applying the qualitative assessment or arriving at an impairment conclusion based solely on a qualitative assessment. This is because an entity would need to consider a cumulative analysis of the changes in events and circumstances since the last quantitative impairment test.

3.1.1.2.1.3 Review changes to carrying amount

Another key aspect of determining the starting point for the qualitative assessment is for companies to update the carrying amount of their reporting units to reflect the balance as of the testing date, including allocating corporate assets and intercompany items that should be kept in the calculation for a reporting unit (and not eliminated). This will provide another relevant data point about the relationship between each reporting unit's most recently calculated fair value and the level of effort that would be required to apply the qualitative assessment. For example, if a reporting unit had a series of smaller acquisitions since the most recent quantitative impairment test, the increase in the carrying amount could be larger than if it had been adjusted by normal recurring operations alone.

3.1.1.2.2 Identify the most relevant drivers of fair value

In order to identify the most relevant drivers of fair value, companies should understand those assumptions that are most likely to affect the fair value of a reporting unit. In doing so, a company should understand the valuation method(s) that are appropriate to determine the fair value of each reporting unit and the assumptions that are most likely to affect each method. As a starting point, companies may want to consider the valuation method and drivers of fair value used in their last quantitative impairment test to determine whether they are still relevant.

Understanding the assumptions that most affect the fair value of a reporting unit will enable companies to focus their efforts on evaluating the key assumptions of the qualitative assessment so that those factors are given more weight in the analysis. For example, drivers of fair value for a reporting unit that is valued using the income approach may be cash flow projections, terminal growth rate or the weighted-average cost of capital (WACC), whereas the drivers of fair value for a reporting unit that is valued using the market approach may be applicable industry multiples such as multiples of revenue or earnings before interest, taxes, depreciation and amortization (EBITDA). Regardless of the method used for determining and calculating fair value for a reporting unit in the past (e.g., income approach, market approach), it is important to remember that the determination of fair value is based on a market participant concept.

Once a company identifies the key assumptions involved, it should determine how sensitive those assumptions are to market and industry factors that occurred during the period since the last quantitative impairment test. The following three illustrations highlight specific procedures that a company should consider performing depending on the most significant drivers of value that it identifies. These illustrations are not meant to indicate that these are the only procedures to perform or factors to consider. Companies applying the qualitative assessment also must keep in mind that other facts may still be relevant because the key drivers affecting fair value can evolve over time.

Illustration 3-3: Drivers of value — income approach, external factors

In the prior year, Company A evaluated its consumer products reporting unit (RU 1) using the income approach. In the current year, Company A has elected to apply the qualitative assessment to test RU 1's goodwill balance for impairment. As part of its qualitative assessment, Company A reviewed its prior-year fair value calculation and determined that the fair value of RU 1 was most sensitive to changes in the WACC.

Based on these facts, Company A should focus on revisiting the assumptions made in determining the WACC in the prior year. In doing so, Company A could update those with more current-year information (e.g., updated market risk premium, updated beta estimate, current risk-free rate, company-specific risk premium) and evaluate how using the newly calculated WACC would change the prior-year fair value calculation.

Illustration 3-4: Drivers of value — income approach, internal factors

Assume the same facts in Illustration 3-3, except that in reviewing the prior-year fair value calculation, Company A determined that in addition to the external factors associated with WACC, the fair value of RU 1 was most sensitive to changes in the expected growth rates over the forecast period, which also affect the calculated terminal value. In that fact pattern, Company A should verify the accuracy of its forecasts over the past few years by comparing its projections with actual results. Company A should also evaluate the company-specific events and circumstances that have occurred since the prior year's calculation and consider their effect on management's growth rate assumptions for RU 1. In addition, since management's growth rate assumption affects projections during both the forecast period and the terminal period, Company A should verify that the growth rate assumptions used to calculate the forecast period cash flows and the terminal value are internally consistent.

Illustration 3-5: Drivers of value — market approach

In the prior year, Company A evaluated its reporting unit (RU 2) using the market approach. In the current year, Company A has elected to apply the qualitative assessment to test RU 2's goodwill balance for impairment. As part of its qualitative assessment, Company A reviewed its prior-year fair value calculation and determined that the fair value of RU 2 was most sensitive to changes in the assumed industry multiples. Based on these facts, Company A should consider obtaining market data on recent transactions and reviewing the multiples observed to determine the direction in which those multiples would drive RU 2's fair value.

For additional interpretive guidance on determining fair value, refer to our FRD, ***Fair value measurement***.

3.1.1.2.3 *Identify events and circumstances*

After considering its starting point and identifying the key drivers of fair value for its reporting unit, a company must identify the events and circumstances (including but not limited to those outlined in ASC 350-20-35-3C) that may have an effect on the fair value of a reporting unit.

A company's analysis of events and circumstances should focus on factors that have changed since the last quantitative impairment test. Using the most recent fair value calculation as the starting point and focusing on changes in events and circumstances will indicate how a current-period fair value calculation may compare with the last quantitative impairment test.

In assessing which events and circumstances most affect the fair value of a reporting unit, a company should consider how it describes its business, risk factors and accounting policies in its annual report and other public filings as well as in any other public forums, including its company website and earnings calls. We believe that management's qualitative assessment should be consistent with how it views and discusses the reporting unit. Accordingly, the assertions made by management in its qualitative assessment should be consistent with statements made to the public regarding the future state of the business (whether formally in its annual report or informally on an earnings call) and/or with the projected financial information being provided to the board of directors and other stakeholders. In their analyses, companies should also consider information that has not yet been disclosed publicly, such as pending litigation or plans to enter new or exit existing service lines.

3.1.1.2.3.1 *Cumulative analysis*

The qualitative assessment must consider all events and circumstances since the most recent fair value calculation was performed. It is important for companies to remember that this requires a cumulative analysis of factors rather than a review of events that transpired during the current year.

Illustration 3-6: Cumulative analysis

In each of the last three years, Company A has applied the qualitative assessment for one of its reporting units (RU 1) and concluded that a quantitative impairment test was not necessary. The results of the most recent fair value calculation (i.e., as of four years ago) indicated that the fair value of the reporting unit exceeded its carrying amount by 44%. Company A has considered the following in its current-year qualitative assessment for RU 1:

- Revenue for RU 1 increased 7% over the prior year.
- Gross margin increased 3% year to date from the same period last year (mostly due to "bolt-on" acquisitions).
- The overall S&P 500 Index is 12% lower than it was at the last measurement date, and public entities within RU 1's industry are down a more modest 3%.

Analysis

While the market and industry information included in Company A's analysis provides information since the last fair value calculation, the company-specific information focuses too narrowly on current-year events. As time goes on, the relevance of the most recent fair value calculation diminishes. The excess fair value that existed four years ago is no longer as precise as it was on the date of the calculation, as various factors have occurred since then that will change both the fair value and the carrying amount of the reporting unit. All events and circumstances that have transpired since the last quantitative impairment test must be considered.

In addition to the factors already considered, Company A should assess how RU 1 has performed for the cumulative three-year period leading to the current-year evaluation. Additionally, Company A should consider that it may have more difficulty determining the likelihood of an impairment based on qualitative factors alone since the current-year increase is driven largely by acquisitions. In addition, if RU 1 has done a number of similar small bolt-on acquisitions over the past three years, the ratio of excess fair value to the increased carrying amount will need to be considered. However, if RU 1 showed internal growth in revenue and gross margins in each of the three previous years, that positive evidence, absent other negative factors, may tip the scale in favor of a conclusion that the qualitative assessment is appropriate for assessing RU 1's goodwill for impairment.

Companies should develop policies and controls for weighing evidence over a longer period of time, as required by the qualitative assessment.

3.1.1.2.4 Weigh the identified factors

Once a company identifies the events and circumstances that most affect the fair value of a reporting unit, it must weigh all factors in their totality to determine whether they support a conclusion that it is more likely than not that a reporting unit's fair value is less than its carrying amount. Given the potential for many events and circumstances to affect the fair value of a reporting unit, it is crucial for companies to give more weight in their qualitative assessments to those factors that most affect fair value.

Illustration 3-7: Weighing factors

Company A is a public company with multiple reporting units operating in the media and entertainment industry. Company A has identified the following positive and negative evidence about the fair value of its publishing reporting unit (Pub), which sells both physical and digital books:

- Two years ago, Pub recorded a goodwill impairment charge, due in large part to the overall decline in the economy and the valuation of the publishing industry. As the economy started to recover, Pub's prior-year quantitative impairment test concluded that the fair value of the reporting unit exceeded its carrying amount by 18%.
- As the industry has rebounded from the lows of two years ago, revenue for the past two years increased by 12% and 7%, respectively. However, increased competition in the publishing industry resulted in declines in gross margins over the past two years of 2% and 3%, respectively.

- Four months ago, a retail bookseller that accounted for 7% of Pub's gross margin filed for bankruptcy protection and left the industry. However, Pub is exploiting new digital distribution networks that it expects to account for 4% of its gross margin. Pub's two largest remaining physical distribution customers account for 45% of its gross margin.
- Pub's president retired during the year and was replaced by the chief operating officer of a smaller competitor.
- During the last year, the overall S&P 500 Index is 8% lower than it was at the last measurement date and public entities in the publishing industry are down 12%.
- Pub's carrying amount increased by 2%.

Analysis

Company A will have to weigh the various positive and negative events above in performing its qualitative assessment. However, Company A can simplify its analysis by giving more weight to the drivers of fair value that most affect the fair value of Pub.

The impairment charge that Pub recorded two years ago is not significant to the current analysis. Given the fact that Pub's fair value was 18% greater than its carrying amount a year ago, there was clearly an improvement in the fair value of Pub subsequent to the impairment being recorded.

Another factor that Company A may give less weight to is the positive effects of increases in revenues. Since gross margins are declining while revenues are growing, that revenue growth could be driven by the overall rebound in the economy from two years ago. Although the high-percentage revenue growth appears positive, it is not increasing at the same pace as expenses, likely resulting in declining value overall.

Similarly, Company A may determine that the relatively quick replacement of the reporting unit's president with an executive of a competitor with industry experience weighs less on the fair value calculation than other factors. However, if the president was a prominent figure in the industry and a significant factor in the market valuation of the company and the departure was unexpected and/or without a transition plan, this factor may have a significant effect on the fair value of the reporting unit.

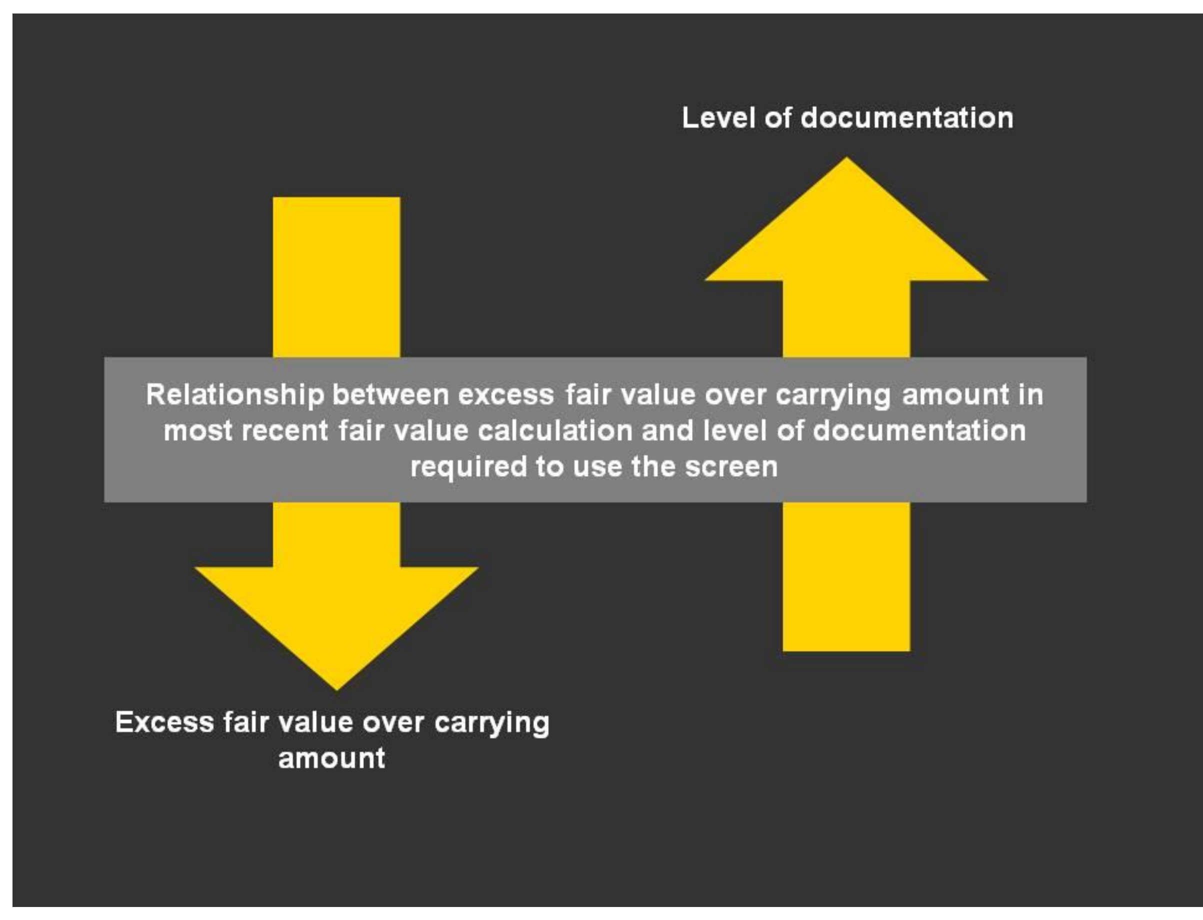
The bankruptcy of the physical retailer and expansion into digital distribution representing a negative 7% and positive 4% effect on gross margin, respectively, could potentially cancel each other out and will have less weight on the overall analysis. However, the deterioration of the physical market (which is not fully being offset by gains in the digital market) should be evaluated to see whether this is an ongoing trend that could indicate future projections should be updated to reflect diminishing revenues. Lastly, the company should evaluate the contract terms and financial health (e.g., creditworthiness) of Pub's two largest remaining physical customers because this assessment will likely have a larger effect on the fair value of Pub.

In addition to the weight of the factors as discussed above, Company A must consider the effect of the overall declines in market and industry values and the change in Pub's carrying amount in order to make a qualitative conclusion about the fair value of Pub.

3.1.1.2.4.1 Inverse relationship to level of documentation

As discussed in section 3.1.1.2.1, the starting point for a qualitative assessment should be reviewing the most recent fair value calculation and determining based on recent events the margin between fair value and carrying amount. Illustration 3-8 below indicates the level of effort that will be required to perform the qualitative assessment depending on the amount of margin that existed in the last quantitative impairment test.

Illustration 3-8: Relationship between excess fair value over carrying amount in most recent calculation and level of current-year documentation



As the graphic above indicates, the smaller the margin, the stronger the supporting evidence and the more robust the documentation likely would need to be to qualitatively conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount. Conversely, the larger the margin, the easier it may be to come to a conclusion about the fair value of a reporting unit using the qualitative assessment.

When the margin is small, companies might also consider performing corroborative procedures, such as comparing assumptions used in the current-year qualitative assessment with actual results in the market and industry in which the reporting unit operates (e.g., analyst reports, recent public transactions). Similarly, companies should remember that as time passes from the date of the most recent fair value calculation, the less relevant that fair value calculation becomes.

3.1.1.2.4.2 Sensitivity analyses

Since the concept of fair value is inherently quantitative (i.e., its end result is a value), in certain cases, making a qualitative assertion about the fair value of a reporting unit may require supporting or corroborating quantitative analysis. While determining the effect of an individual event or circumstance may be straightforward, weighing various factors against each other will require additional judgment. Due to the complexities of fair value calculations (under any method), weighing the factors that could affect fair value may prove challenging without some sort of sensitivity analysis to help quantify which factors most affect fair value.

Illustration 3-9: Sensitivity analysis — market approach

Company A is a public oil and gas company with multiple reporting units based on geography. Assume the following with respect to the US reporting unit (RU) of Company A:

- In the prior year's quantitative impairment test, the fair value of RU exceeded its carrying amount by 19%. Company A used the market approach to determine RU's fair value.
- Overall equity markets are down 14% in the current year, and recent transactions in the oil and gas industry indicate multiples have decreased 11% from the assumptions used in the prior year.
- Company A has not yet reviewed its company-specific factors from the prior year, and is considering whether the declines in the oil and gas industry and overall market, absent offsetting positive evidence, would have such a negative effect on the fair value of RU that Company A would not be able to make a qualitative assertion that it is not more likely than not that the fair value of RU is less than its carrying amount.

Analysis

In this fact pattern, because of the negative indicators, Company A could consider performing some sort of sensitivity analysis on the fair value of RU before determining whether to proceed with the qualitative assessment. By updating the assumptions used in the prior year's fair value calculation to reflect the declines in oil and gas multiples, Company A can quickly evaluate how sensitive its most recent fair value is to the industry-wide declines in value. In doing this sensitivity comparison, Company A should also update its carrying amount to reflect current-year information, which will provide a better indication of whether Company A would pass the quantitative impairment test if all other factors remained the same.

If updating the assumptions to reflect current industry multiples causes the quantitative impairment test from the prior year to fail (i.e., would result in goodwill impairment) and there are no other significant offsetting positive factors, Company A likely would conclude that it should perform the quantitative impairment test in the current year. Alternatively, if after reflecting the declines in multiples and changes in carrying amounts the sensitivity analysis indicates that there is still excess fair value, Company A may likely conclude that it will continue with the qualitative assessment and identify and evaluate the other events and circumstances affecting fair value to complete its analysis.

Company A may also consider performing a breakeven sensitivity analysis to determine how low the relevant market multiple would have to fall before it triggered impairment in the prior-year fair value calculation. Company A could then evaluate the probability that RU would be subject to a market multiple consistent with the implied breakeven market multiple. For example, if the market multiple needed to decline by 5x for the fair value of RU to be less than its carrying amount, Company A may conclude that the likelihood of potential impairment would be low and conclude that performing the qualitative assessment would be sufficient. In contrast, if the market multiple needed to decline by only 1x before triggering a potential impairment, the company may conclude that performing a quantitative impairment test would be necessary.

Illustration 3-10: Sensitivity analysis — income approach

Assume the same facts as in Illustration 3-9, except that Company A used the income approach (i.e., discounted cash flow method) to determine RU's fair value. Additionally, the market capitalizations of public US companies in the oil and gas industry also have declined on average 11% from the time of the prior-year fair value calculation.

Analysis

In this fact pattern, Company A might consider performing a sensitivity analysis using the information in the most recent fair value calculation. By updating the WACC used in the prior-year calculation to better reflect the additional perceived risk related to companies operating in the oil and gas industry and to capture any incremental risk specific to the RU and its projections, Company A could determine the significance of the decline in equity values of its industry on its fair value calculation. If performing this sort of sensitivity analysis causes the entity to fail the quantitative impairment test from the prior year (i.e., there would be goodwill impairment) and there are no other significant offsetting positive factors, Company A likely would conclude that it should perform the quantitative impairment test in the current year.

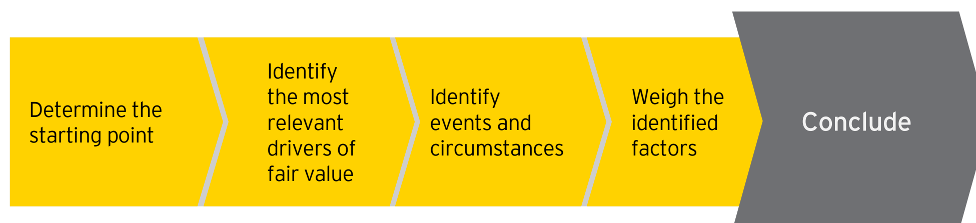
Company A also may consider performing a breakeven sensitivity analysis to determine how high the WACC would have to rise before it triggered impairment in the prior-year fair value calculation. Company A could then evaluate the probability that RU would be subject to a WACC rate consistent with the implied breakeven WACC. For example, if the WACC needed to rise by 10% for the fair value of RU to be less than its carrying amount, Company A may conclude that the likelihood of potential impairment would be low and conclude that performing the qualitative assessment would be sufficient. In contrast, if the WACC needed to rise by only 1% before triggering a potential impairment, the company may conclude that performing a quantitative impairment test would be necessary.

The illustrations above show how certain quantitative calculations may help support specific qualitative assertions. However, it is important to remember that sensitivity analyses such as these should not be performed without consideration of all facts and circumstances. The qualitative assessment requires an evaluation of facts and circumstances in their totality to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Depending on the facts and circumstances for a particular reporting unit, a company might consider involving external valuation specialists to help determine ranges for key assumptions to be used in the sensitivity analysis.

For additional guidance on determining fair value, refer to our FRD, ***Fair value measurement***.

3.1.1.2.5 *Conclude*



The final step in performing the qualitative assessment is to conclude. As a reminder, if a company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, it must perform the quantitative impairment test. If it concludes otherwise, it has completed its goodwill impairment assessment and can skip the quantitative impairment test.

Concluding that a reporting unit has passed the qualitative assessment (i.e., that it is not more likely than not that the fair value is less than the carrying amount) will require companies to apply significant judgment. Clear documentation of the factors considered, including any necessary supporting evidence or quantitative calculations, will be essential. Depending on the complexity of the reporting unit being evaluated, it may also be necessary to obtain input from valuation specialists.

A lack of a thorough analysis of the effects of all significant events and circumstances on the fair value or carrying amount of a reporting unit could lead to an incorrect conclusion. Developing clear, contemporaneous documentation also will help a company support its conclusions if regulators raise questions.

3.1.2 Reporting units with zero or negative carrying amounts (updated June 2023)

The one-step impairment test is required to be applied to all reporting units, including reporting units with zero or negative carrying amounts. Since the amount of goodwill impairment is calculated as the excess of the carrying amount of a reporting unit over its fair value, a reporting unit with a zero or negative carrying amount likely will not have an impairment (i.e., it's rare for a reporting unit's fair value to be negative).

Therefore, when a reporting unit has a zero or negative carrying amount, the entity should consider whether using an enterprise premise to determine the carrying amount and fair value of the reporting unit would result in a more representative impairment evaluation.[10] Entities should also consider whether assets and liabilities have been appropriately assigned to the reporting unit, and whether the carrying amount of the reporting unit is being calculated in a manner consistent with the determination of fair value. See section 3.9 for further discussion about the assignment of assets and liabilities to reporting units and consistency with the valuation premise selected (i.e., equity versus enterprise).

Before issuing ASU 2017-04, which simplified the goodwill impairment test, the Board considered various alternatives to specifically address reporting units with zero or negative carrying amounts, including whether to retain Step 2 of the legacy goodwill impairment test for these situations or to require that an enterprise premise be used to determine the fair value of reporting units in these cases. However, the Board concluded that requiring the one-step impairment test for all reporting units would result in a consistent approach. In addition, the Board noted that it would be counterintuitive for a reporting unit with a small negative carrying amount to apply a different test or use a different valuation premise than a reporting unit with a small positive carrying amount.[11]

Instead of providing additional guidance for calculating impairment in these instances, the Board decided to require an entity to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount. An entity also is required to disclose which reportable segment the reporting unit is included in. See section 4.2.1 for additional discussion of the disclosures related to reporting units with zero or negative carrying values.

3.1.3 Consideration of deferred income taxes in determining the carrying amount of a reporting unit

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Recognition and Measurement of an Impairment Loss

350-20-35-7

In determining the carrying amount of a reporting unit, deferred income taxes shall be included in the carrying amount of the reporting unit, regardless of whether the fair value of the reporting unit will be determined assuming it would be bought or sold in a taxable or nontaxable transaction.

[10] BC49 to 52 of ASU 2017-04.

[11] BC35 to 48 of ASU 2017-04.

ASC 350-20-35-7 addresses certain issues related to consideration of deferred taxes when performing the goodwill impairment tests. Deferred tax assets and liabilities that arise from differences between the book and tax bases of assets and liabilities assigned to a reporting unit should be included in the carrying amount of the reporting unit, regardless of whether the fair value of the reporting unit will be determined assuming it would be bought or sold in a taxable or non-taxable transaction. We also believe that the effect of any valuation allowances on deferred tax assets should be included in the carrying amount of the reporting unit.

See section 3.10 for further discussion on assigning assets or liabilities used in multiple reporting units, section 3.3.2 for further discussion of the consideration of deferred taxes in the determination of the fair value of a reporting unit and section 3.19 for further guidance on the effect of deferred taxes in the quantitative impairment test when goodwill is deductible for tax purposes.

3.2 Goodwill impairment test is incomplete

Prior to the adoption of ASU 2017-04, it was possible that a company would have to issue financial statements before completing Step 2 of the impairment test and measuring any impairment loss. In that case, if the loss was probable and could be reasonably estimated, the best estimate of the loss was recognized in the financial statements (using the guidance in ASC 450). Companies were required to disclose the fact that the measurement of the impairment loss was an estimate. Any adjustment to that estimated loss resulting from the completion of the measurement would be recognized in the subsequent period.

Because Step 2 of the impairment test no longer applies, the Board removed this guidance and noted in paragraph BC34 of ASU 2017-04 that an entity should be able to complete the quantitative impairment test before the financial statements are issued or are available to be issued.

3.3 Fair value measurements of a reporting unit

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Determining the Fair Value of a Reporting Unit

350-20-35-22

The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement, if available. However, the market price of an individual equity security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit as a whole.

350-20-35-23

Substantial value may arise from the ability to take advantage of synergies and other benefits that flow from control over another entity. Consequently, measuring the fair value of a collection of assets and liabilities that operate together in a controlled entity is different from measuring the fair value of that entity's individual equity securities. An acquiring entity often is willing to pay more for equity securities that give it a controlling interest than an investor would pay for a number of equity securities representing less than a controlling interest. That control premium may cause the fair value of a reporting unit to exceed its market capitalization. The quoted market price of an individual equity security, therefore, need not be the sole measurement basis of the fair value of a reporting unit.

350-20-35-24

In estimating the fair value of a reporting unit, a valuation technique based on multiples of earnings or revenue or a similar performance measure may be used if that technique is consistent with the objective of measuring fair value. Use of multiples of earnings or revenue in determining the fair value of a reporting unit may be appropriate, for example, when the fair value of an entity that has comparable operations and economic characteristics is observable and the relevant multiples of the comparable entity are known. Conversely, use of multiples would not be appropriate in situations in which the operations or activities of an entity for which the multiples are known are not of a comparable nature, scope, or size as the reporting unit for which fair value is being estimated.

The fair value of a reporting unit is the amount at which the unit as a whole could be sold in a current transaction between willing parties (i.e., other than in a forced or liquidation sale). If a public company has only one reporting unit (or has a publicly traded subsidiary that represents a reporting unit), the market capitalization of the public company (or its public subsidiary) provides significant evidence about the fair value of that reporting unit.

When the estimated fair value of a company is greater than its market capitalization, this generally implies that a control premium[12] (which may also be described more broadly as an acquisition premium[13]) has been considered in determining the fair value of the company's reporting unit(s). A control premium may be included if management believes that substantial value may arise from a market participant's ability to take advantage of synergies and other benefits that result from obtaining control over a company (or reporting unit).

ASC 350 acknowledges that an acquirer often is willing to pay a premium over the quoted market price for equity securities that give it a controlling interest. Quoted market prices generally represent the price of stock for a noncontrolling interest in the company under the stewardship of existing management. Therefore, the quoted market price of individual securities need not be the sole measurement basis of the fair value of a reporting unit.

ASC 820 provides the framework for measuring fair value. See our FRD, ***Fair value measurement***, for further guidance.

3.3.1 Market capitalization as a corroboration of fair value

While this is not required under US GAAP, a publicly traded company should reconcile the fair value of its reporting unit(s) to its stock price and market capitalization to corroborate its fair value estimates used in both interim and annual impairment testing. The SEC staff, in fact, has requested that registrants provide evidence of this analysis to justify an implied control premium.

The SEC staff has said a registrant is not expected to calculate its market capitalization using a point-in-time market price as of the date of its goodwill impairment assessment.[14] Instead, the registrant may consider recent trends in its stock price over a reasonable period leading up to the impairment testing date.

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[12] A control premium is typically defined as the "amount or percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a noncontrolling interest in a business enterprise to reflect the value of control."

[13] An acquisition premium is the amount or percentage by which the pro rata value of a controlling interest under an acquirer (i.e., new controlling shareholder(s)) exceeds its value when measured with respect to the current stewardship of the enterprise.

[14] Remarks by Robert G. Fox III, Professional Accounting Fellow at the SEC, at the 2008 AICPA National Conference on Current SEC and PCAOB Developments, 8 December 2008.

Historically, a "reasonable period" has been interpreted to mean a relatively short period, the length of which might vary depending on the company's particular facts and circumstances. However, the SEC staff also has said that registrants should not ignore a recent decline in market capitalization. Companies should be prepared to support any range of dates used to determine their market capitalization based on company-specific factors, including volatility in the company's stock price.

While many public companies have multiple reporting units and may not use their market value to determine the fair value of their reporting units, we would expect companies to document and explain, in sufficient detail, the reasons for any significant difference between the sum of the fair values of their individual reporting units and the company's total market capitalization (i.e., implied control premium). The extent of documentation and analysis will vary based on the facts and circumstances. Broad generalizations, including assertions that the current market is not reflective of underlying values or the use of a "rule of thumb," to explain differences between the fair value of a reporting unit(s) and market capitalization would not be appropriate.

The SEC staff[15] has said that it does not apply a bright-line test when evaluating control premiums and that the application of judgment can result in a range of reasonably possible control premiums. Regardless of whether the analysis is quantitative, qualitative or some combination of those approaches, the SEC staff has said it would expect the company to have objective evidence to support the reasonableness of its implied control premium. The SEC staff also expects the amount of documentation supporting the implied control premium to increase as the control premium increases.

More analyses and documentation on the following topics may be required to support the market capitalization reconciliation, based on current market conditions:

- Synergies — the price that would be paid to obtain specific synergies that would enhance an enterprise's cash flow as a result of obtaining control
- Reduction in required rate of return — the increase in value from reducing the required rate of return through the market participant acquirer's ability to optimize the capital structure
- Information transparency — the difference between the information a market participant acquirer of the business as a whole would have access to and an individual who buys shares in the public market would have access to

Determining a reasonable implied control premium is often challenging. The Appraisal Foundation's ***Valuations in Financial Reporting Valuation Advisory 3: The Measurement and Application of Market Participant Acquisition Premiums*** (Valuation Advisory) that was issued in September 2017 provides best practices on the appropriate methodologies to use. Although the Valuation Advisory is not authoritative guidance, we understand that the valuation techniques described in the Valuation Advisory are generally recognized by the valuation community as acceptable methods for determining a control premium.

3.3.1.1 Effect of qualitative assessment on performing a market capitalization reconciliation

When a company reconciles the fair values of its reporting units to its overall market capitalization, the company's ability to support an implied control premium will become more complicated if it uses the qualitative assessment to test the goodwill of one or more of its reporting units for impairment. The Board acknowledged in paragraph BC34 of ASU 2011-08 that the use of the qualitative assessment will result in companies applying judgment about when and how to perform the market capitalization reconciliation.

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[15] Comments by Robert G. Fox III, Professional Accounting Fellow at the SEC, at the 2008 AICPA National Conference on Current SEC and PCAOB Developments, 8 December 2008.

While companies that elect to apply the qualitative assessment to one or more reporting units would no longer have current indicators of fair value to reconcile to market capitalization, the Board concluded that a company's inability to perform this reconciliation should not be determinative with respect to its decision on whether to apply the qualitative assessment. Instead, in certain situations, it may be appropriate for a company to perform a limited evaluation of the reasonableness of the implied premium based on other sources of information available to the company about the fair value of its reporting units for which a qualitative assessment was performed. For example, a company may compare its market capitalization to the sum of the fair values of the reporting units for which a quantitative impairment test is performed in the current year, plus fair value information from a prior quantitative test that has been adjusted for changes in market conditions have affected the underlying cash flows since the last quantitative test was performed for others (i.e., reporting units that are qualitatively assessed in the current year). While this evaluation is not as precise as a market capitalization reconciliation in which all reporting units have current fair value calculations, it may provide information about the reasonableness of the implied premium for the consolidated company. If, based on this limited analysis, the results of the market capitalization and related premium do not reconcile, companies should consider performing additional analyses.

If a company records an impairment charge for one or more reporting units as a result of performing the quantitative impairment test, it may wish to consider whether performing a full market capitalization reconciliation would provide further evidence with respect to its overall conclusions about fair value and the related goodwill impairment charge. Depending on the facts and circumstances, a company may conclude that performing a full market capitalization reconciliation (including calculating the fair value of reporting units for which it had previously only assessed qualitatively) could be useful to verify that the impairment charge recorded was accurate. Performing a full market capitalization reconciliation of the fair value of all reporting units can help companies verify that the value assigned to the impaired reporting unit is appropriate.

Similarly, companies that experience a sustained decrease in share price (either in absolute terms or relative to peers) may want to consider performing an overall market capitalization reconciliation to verify the reasonableness of their assertions of the fair value of each of their reporting units. Depending on the facts and circumstances, such a decrease could be identified as a significant driver of fair value that could result in a company concluding that a quantitative market capitalization reconciliation is necessary.

3.3.2 Effect of deferred taxes on fair value assumptions

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Deferred Income Tax Considerations

350-20-35-25

Before estimating the fair value of a reporting unit, an entity shall determine whether that estimation should be based on an assumption that the reporting unit could be bought or sold in a nontaxable transaction or a taxable transaction. Making that determination is a matter of judgment that depends on the relevant facts and circumstances and must be evaluated carefully on a case-by-case basis (see Example 1 [paragraphs 350-20-55-10 through 55-23]).

350-20-35-26

In making that determination, an entity shall consider all of the following:

a. Whether the assumption is consistent with those that marketplace participants would incorporate into their estimates of fair value

b. The feasibility of the assumed structure

c. Whether the assumed structure results in the highest and best use and would provide maximum value to the seller for the reporting unit, including consideration of related tax implications.

350-20-35-27

In determining the feasibility of a nontaxable transaction, an entity shall consider, among other factors, both of the following:

a. Whether the reporting unit could be sold in a nontaxable transaction

b. Whether there are any income tax laws and regulations or other corporate governance requirements that could limit an entity's ability to treat a sale of the unit as a nontaxable transaction.

The determination of whether to estimate the fair value of a reporting unit by assuming that the unit could be bought or sold in a non-taxable transaction versus a taxable transaction in performing the quantitative impairment test is a matter of judgment that depends on the relevant facts and circumstances and must be evaluated on a case-by-case basis. In making that determination, an entity should consider, among other things, (1) whether the assumption is consistent with those that marketplace participants would incorporate into their estimates of fair value, (2) the feasibility of the assumed structure and (3) whether the assumed structure results in the reporting unit's highest economic value to the seller.

The following two examples codified in ASC 350-20-55-10 through 55-23 illustrate how an entity evaluates whether a market participant would sell a reporting unit in a nontaxable or taxable transaction, and how that evaluation affects the determination of fair value of a reporting unit when performing the quantitative impairment test.

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and other — Goodwill

Implementation Guidance and Illustrations

Example 1: Impairment Test When either a Taxable or Nontaxable Transaction is Feasible

Case A — Effect of a Nontaxable Transaction on the Impairment Test of Goodwill

350-20-55-10

This Example illustrates the effect of a nontaxable transaction on the impairment test of goodwill. The Example may not necessarily be indicative of actual income tax liabilities that would arise in the sale of a reporting unit or the relationship of those liabilities in a taxable versus nontaxable structure.

350-20-55-11

Entity A is performing a goodwill impairment test relative to Reporting Unit at December 31, 20X2. Reporting Unit has the following assets and liabilities:

a. Net assets (excluding goodwill and deferred income taxes) of $60 with a tax basis of $35

b. Goodwill of $40

c. Net deferred tax liabilities of $10.

350-20-55-12

Entity A believes that it is feasible to sell Reporting Unit in either a nontaxable or a taxable transaction. Entity A could sell Reporting Unit for $80 in a nontaxable transaction or $90 in a taxable transaction. If Reporting Unit were sold in a nontaxable transaction, Entity A would have a current tax payable resulting from the sale of $10. Assuming a tax rate of 40 percent, if Reporting Unit were sold in a taxable transaction, Entity A would have a current tax payable resulting from the sale of $22 ([$90 - 35] × 40%).

350-20-55-13

In the quantitative impairment test in paragraphs 350-20-35-4 through 35-8, Entity A concludes that market participants would act in their economic best interest by selling Reporting Unit in a nontaxable transaction based on the following evaluation of its expected after-tax proceeds.

	Nontaxable	Taxable
Gross proceeds (fair value)	$ 80	$ 90
Less: taxes arising from transaction	(10)	(22)
Value to Entity A	$ 70	$ 68

350-20-55-14

In the quantitative impairment test, Entity A would determine the carrying amount of Reporting Unit as follows.

Net assets	$ 60
Goodwill	40
Deferred taxes	(10)
Carrying value	$ 90

350-20-55-15

The goodwill allocated to Reporting Unit is determined to be impaired because Reporting Unit's carrying value ($90) exceeds its fair value ($80 assuming a nontaxable transaction).

350-20-55-16

Reporting Unit must recognize the full goodwill impairment loss of $10 (determined as the excess of the carrying amount of Reporting Unit of $90 compared with its fair value of $80) because the $10 impairment loss does not exceed the $40 carrying amount of the goodwill allocated to Reporting Unit.

Example 2: Impairment Test When either a Taxable or Nontaxable Transaction is Feasible

Case B — Effect of a Taxable Transaction on the Impairment Test of Goodwill

350-20-55-17

This Example illustrates the effect of a taxable transaction on the impairment test of goodwill. The Example may not necessarily be indicative of actual income tax liabilities that would arise in the sale of a reporting unit or the relationship of those liabilities in a taxable versus nontaxable structure.

350-20-55-18

Entity A is performing a goodwill impairment test relative to Reporting Unit at December 31, 20X2. Reporting Unit has the following assets and liabilities:

a. Net assets (excluding goodwill and deferred income taxes) of $60 with a tax basis of $35

b. Goodwill of $40

c. Net deferred tax liabilities of $10.

350-20-55-19

Entity A believes that it is feasible to sell Reporting Unit in either a nontaxable or a taxable transaction. Entity A could sell Reporting Unit for $65 in a nontaxable transaction or $80 in a taxable transaction. If Reporting Unit were sold in a nontaxable transaction, Entity A would have a current tax payable resulting from the sale of $4. Assuming a tax rate of 40 percent, if Reporting Unit were sold in a taxable transaction, Entity A would have a current tax payable resulting from the sale of $18 ([$80 - 35] × 40%).

350-20-55-20

In the quantitative impairment test in paragraphs 350-20-35-4 through 35-8, Entity A concludes that market participants would act in their economic best interest by selling Reporting Unit in a taxable transaction. This conclusion was based on the following.

	Nontaxable Transaction	Taxable Transaction
Gross proceeds (fair value)	$ 65	$ 80
Less: taxes arising from transaction	(4)	(18)
Value to Entity A	$ 61	$ 62

350-20-55-21

Deferred taxes related to the net assets of Reporting Unit should be included in the carrying value of Reporting Unit. Accordingly, in the quantitative impairment test Entity A would determine the carrying amount of Reporting Unit as follows.

Net assets	$ 60
Goodwill	40
Deferred income taxes	(10)
Carrying value	$ 90

350-20-55-22

The goodwill allocated to Reporting Unit is determined to be impaired because Reporting Unit's carrying amount ($90) exceeds its fair value ($80).

350-20-55-23

Reporting Unit must recognize the full goodwill impairment loss of $10 (determined as the excess of the carrying amount of Reporting Unit of $90 compared with its fair value of $80) because the $10 impairment loss does not exceed the $40 carrying amount of the goodwill allocated to Reporting Unit.

When performing the quantitative impairment test for a reporting unit, an entity that assumes a market participant would sell the reporting unit in a taxable transaction generally will estimate a higher fair value (and consequently, recognize a lower impairment loss) than it would have if the reporting unit was assumed to be sold in a nontaxable transaction. This is because market participants generally expect additional consideration in taxable transactions. For example, as indicated in Case B above, because the entity determines that it would be in a market participant's best economic interest to sell the reporting unit in a taxable transaction, the entity would assume an estimated fair value of $80 when performing its quantitative test. Consequently, the entity recognizes an impairment loss of $10 (the excess of the reporting unit's carrying value of $90 over its fair value of $80), which is $15 lower than the impairment loss the entity would have recognized if it had assumed that the reporting unit would be sold in a nontaxable transaction (i.e., an impairment loss of $25 representing the excess of the reporting unit's $90 carrying value over a fair value of $65).

3.4 Goodwill impairment test of a reporting unit that includes all or part of a foreign entity

Excerpt from Accounting Standards Codification

Foreign Currency Matters — Translation of Financial Statements

Other Presentation Matters

Translation After a Business Combination

830-30-45-11

After a business combination, the amount assigned at the acquisition date to the assets acquired and the liabilities assumed (including goodwill or the gain recognized for a bargain purchase in accordance with Subtopic 805-30) shall be translated in conformity with the requirements of this Subtopic.

Reporting Translation Adjustments

830-30-45-12

If an entity's **functional currency** is a **foreign currency**, translation adjustments result from the process of translating that entity's financial statements into the reporting currency. Translation adjustments shall not be included in determining net income but shall be reported in other comprehensive income.

Consideration of Cumulative Translation Adjustment in Impairment Tests

830-30-45-13

An entity that has committed to a plan that will cause the cumulative translation adjustment for an equity method investment or a consolidated investment in a foreign entity to be reclassified to earnings shall include the cumulative translation adjustment as part of the carrying amount of the investment when evaluating that investment for impairment. The scope of this guidance includes an investment in a foreign entity that is either consolidated by the reporting entity or accounted for by the reporting entity using the equity method. This guidance does not address either of the following:

a. Whether the cumulative translation adjustment shall be included in the carrying amount of the investment when assessing impairment for an investment in a foreign entity when the reporting entity does not plan to dispose of the investment (that is, the investment or related consolidated assets are held for use)

b. Planned transactions involving foreign investments that, when consummated, will not cause a reclassification of some amount of the cumulative translation adjustment.

830-30-45-14

In both cases, paragraph 830-30-40-1 is clear that no basis exists to include the cumulative translation adjustment in an impairment assessment if that assessment does not contemplate a planned sale or liquidation that will cause reclassification of some amount of the cumulative translation adjustment. (If the reclassification will be a partial amount of the cumulative translation adjustment, this guidance contemplates only the cumulative translation adjustment amount subject to reclassification pursuant to paragraphs 830-30-40-2 through 40-4.)

830-30-45-15

An entity shall include the portion of the cumulative translation adjustment that represents a gain or loss from an effective hedge of the net investment in a foreign operation as part of the carrying amount of the investment when evaluating that investment for impairment.

When a reporting unit contains one or more foreign entities or is a foreign entity (as defined by ASC 830), entities will need to carefully consider whether a portion of goodwill resulting from an acquired business should be attributed to a foreign entity. A foreign entity may include a subsidiary, division, branch or joint venture that constitutes a reporting unit by itself or that is contained in a broader reporting unit. That is, a foreign entity as defined by ASC 830 may differ from a legal entity. See section 1.2.2 of our FRD, ***Foreign currency matters***, for additional discussion on the definition of a foreign entity under ASC 830.

Goodwill attributed to a foreign entity (along with assets acquired and liabilities assumed) should be initially measured in the functional currency of the foreign entity and subsequently translated to the reporting currency of the parent (if the functional currency of the foreign entity is different from the reporting currency) at the current exchange rate. Any resulting translation adjustments would be included as a cumulative translation adjustment (CTA). Changes in the goodwill balance caused by foreign currency translation should be reflected in the reporting units where goodwill is assigned.

This initial and subsequent measurement would apply regardless of whether goodwill and related acquisition method adjustments were pushed down to the books and records of the foreign entity.

As discussed in section 3.1, goodwill is tested for impairment at the reporting unit level. To test goodwill for impairment at the reporting unit, goodwill (along with assets acquired and liabilities assumed) in connection with a business combination is assigned to a reporting unit as of the date of acquisition.

See sections 3.9 through 3.11 for general guidance related to the assignment of assets acquired and liabilities assumed and goodwill to reporting units. See section 4.2.1 of our FRD, ***Foreign currency matters***, for additional discussion on the translation of amounts of assets acquired and liabilities assumed and goodwill assigned to reporting units after a business combination under ASC 830.

Question 3.2 **Should goodwill related to a multi-currency reporting unit be tested for impairment at a level lower than the reporting unit?**

No. ASC 350-20-35-1 requires entities to test goodwill for impairment at the reporting unit level. Therefore, goodwill cannot be tested for impairment at any level within the entity other than the reporting unit level.

3.4.1 Consideration of CTA amounts in the carrying amount of a reporting unit

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-39A

Foreign currency translation adjustments should not be allocated to a reporting unit from an entity's accumulated other comprehensive income. The reporting unit's carrying amount should include only the currently translated balances of the assets and liabilities assigned to the reporting unit.

Foreign currency translation adjustments should not be allocated to a reporting unit from an entity's other comprehensive income. Therefore, the carrying amount of the reporting unit should include only its currently translated balances.

Illustration 3-11: Treatment of CTA in goodwill impairment test

Company A is performing the goodwill impairment test for a reporting unit that also is a foreign entity that has the following balances (after currency translation):

Assets (including goodwill)	$ 50	
Liabilities	(20)	
Net assets	$ 30	
Paid-in capital and retained earnings		$ (35)
Cumulative translation adjustment		5
Total equity		$ (30)

Analysis

Pursuant to ASC 350-20-35-39A, the CTA balance should not be included in the carrying amount of the reporting unit. Therefore, the carrying amount of the reporting unit's net assets should be based on current exchange rates, or $30.

3.5 Frequency of goodwill impairment tests

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-28

Goodwill of a reporting unit shall be tested for impairment on an annual basis and between annual tests in certain circumstances (see paragraph 350-20-35-30). The annual goodwill impairment test may be performed any time during the fiscal year provided the test is performed at the same time every year. Different reporting units may be tested for impairment at different times.

Goodwill of each reporting unit must be tested for impairment at least annually. The timing of the annual impairment test does not have to be at the end of each fiscal year. The goodwill impairment test can be performed at any time during the year as long as that measurement date is used consistently going forward. A company's decision to apply the qualitative assessment does not change the company's annual testing date (see section 3.1.1 for guidance on the qualitative assessment). Further, a company can elect to assign different measurement dates to different reporting units based on factors such as the seasonality of the business, the dates that it will be easiest to determine fair value (if necessary) and spreading out the workload if the determinations are to be performed internally. For example, a company can elect to consistently perform its annual impairment tests for Reporting Unit A in December, Reporting Unit B in September and Reporting Unit C in June.

Public companies should carefully select their annual goodwill measurement dates because quarterly reporting requirements limit the amount of time to complete the fair value determinations required. For example, if a calendar year-end public company selects 30 September or another quarter end as its annual measurement date and subsequently experiences goodwill impairment, there may be insufficient time to complete all of the required valuation analysis prior to the date the third quarter Form 10-Q is due.

We observe that companies often choose the beginning of the fourth fiscal quarter as the annual impairment test date. Following this approach, companies will have the appropriate carrying amounts available as of the last day of the prior fiscal quarter and will have the full quarter to assess whether they have a potential impairment (qualitative assessment, if used) and complete the quantitative impairment

test, if required. If a company identifies an impairment charge when performing its annual assessment as of the beginning of its fiscal fourth quarter, it should consider whether the impairment is appropriately recognized in the fourth quarter or whether it should have been recognized in an earlier interim period.

Further, this approach would alleviate concerns about whether indicators exist in later quarters of the fiscal year, which could occur if the impairment test was performed earlier in the year (i.e., the risk that an indicator of impairment occurred and was not detected between the completion of the annual test and the preparation of the year-end financial statements is reduced).

3.5.1 Changing the goodwill assessment date (updated June 2023)

Some companies might elect to change the date of the annual goodwill assessment date. Such a change would be considered a voluntary change in accounting principle in accordance with ASC 250, *Accounting changes and error corrections*. In accordance with ASC 250, an entity is required to disclose, in the fiscal period the change in accounting principle is made, the nature of and reason for the change (including an explanation of why the newly adopted accounting principle is preferable), the method of applying the change and any indirect effects of the change.

Section II.G.2 of the SEC staff's *Current Accounting and Disclosure Issues in the Division of Corporation Finance*, which was updated in 2006, states the following about a registrant's ability to change the annual assessment date:

> SFAS 142 [ASC 350-20] requires that goodwill be tested, at the reporting unit level, for impairment on an annual basis. An impairment test also could be triggered between annual tests if an event occurs or circumstances change. A reporting unit is required to perform the annual impairment test at the same time every year, however, nothing precludes a registrant from changing the date of the annual impairment test. If a registrant chooses to change the date of the annual impairment test, it should ensure that no more than 12 months elapse between the tests. The change in testing dates should not be made with the intent of accelerating or delaying an impairment charge. The staff will likely raise concerns if a registrant is found to have changed the date of its annual goodwill impairment test frequently.

When an SEC registrant makes a voluntary change in accounting principle, it generally is required to include a preferability letter issued by its independent registered public accounting firm as Exhibit 18 to its first periodic report filed subsequent to the accounting change (e.g., Quarterly Report on Form 10-Q if the change is made in an interim period other than the fourth quarter, Annual Report on Form 10-K if the change is made in the fourth quarter).

However, in a December 2014 speech, an SEC staff member[16] stated the following: "… the staff has observed that some registrants may view a change in goodwill impairment testing date to not represent a material change to a method of applying an accounting principle, even if goodwill is material to the financial statements, because the change in impairment testing date is not viewed to have a material effect on the financial statements in light of the registrant's internal controls and requirements under Topic 350 to assess goodwill impairment upon certain triggering events. The staff acknowledges that judgment is required when assessing materiality and the assessment of whether a change in accounting principle is material may include considerations beyond the quantitative significance of the financial statement line items. Accordingly, if a registrant determines that a change in goodwill impairment testing date does not represent a material change to its method of applying an accounting principle, the staff will no longer request a preferability letter to be obtained and filed, provided that such change is prominently disclosed in the registrant's financial statements. The staff also reserves the right to ask questions based on the registrant's specific facts and circumstances, which may include situations where it appears that a registrant's goodwill impairment testing date is frequently changed."

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[16] Carlton E. Tartar, Associate Chief Accountant, Office of the Chief Accountant.

We believe this exception to the requirement to include a preferability letter as an exhibit to the first periodic report filed subsequent to the accounting change is limited to voluntary changes in accounting principle related to the date the annual goodwill impairment assessment is performed.

As a reminder, even when a preferability letter is not required for a voluntary change in accounting principle, the change must be preferable.

ASC 250 requires entities to report a change in accounting principle on a retrospective basis unless it is impractical to do so. We believe that applying a change in the annual goodwill impairment testing date retrospectively would require making assumptions and estimations with the use of hindsight. Accordingly, consistent with the impracticability conditions in ASC 250, a voluntary change in the annual goodwill impairment testing date is applied prospectively.

Refer to section 3 of our FRD, ***Accounting changes and error corrections***, for further discussion on a voluntary change in accounting principle, including considerations on whether a preferability letter is required for a change in the annual goodwill impairment testing date (section 3.9).

3.6 Interim impairment test

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-30

Goodwill of a reporting unit shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Paragraph 350-20-35-3C(a) through (g) includes examples of such events and circumstances. Paragraphs 350-20-35-3F through 35-3G describe the process for making these evaluations.

In addition to the annual goodwill impairment test, an interim test for goodwill impairment should be completed when an event occurs or circumstances change between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. ASC 350-20-35-3C provides the following list of events and circumstances to consider in determining whether an interim goodwill impairment test is necessary:

- Macroeconomic conditions (e.g., deterioration in general economy)
- Industry and market considerations (e.g., deterioration in the environment in which the company operates)
- Cost factors (e.g., increases in raw materials, labor)
- Overall financial performance (e.g., negative or declining cash flows)
- Other relevant entity-specific events (e.g., changes in management or key personnel)
- Events affecting a reporting unit (e.g., change in composition of net assets, expectation of disposing all or a portion of the reporting unit)
- A sustained decrease in share price (in either absolute terms or relative to peers), if applicable

These events and circumstances are examples, not an all-inclusive list of goodwill impairment indicators. Other events and changes in circumstances may also require goodwill to be tested for impairment between annual measurement dates. Companies must test goodwill of a reporting unit for impairment after a portion of goodwill has been assigned to a business that is disposed of. If an acquisition generated synergistic goodwill that was assigned to a reporting unit that was not assigned other acquired assets, we believe that the subsequent disposal of that acquired business may be an impairment indicator of the goodwill at the reporting unit to which the synergistic goodwill was assigned.

Certain market conditions may lead to a conclusion that one or more of those events have occurred. The SEC staff[17] said it will consider the following indicators when performing reviews:

- Recent operating losses at the reporting unit level
- Downward revisions to forecasts
- A decline in enterprise market capitalization below book value
- Restructuring actions or plans
- Industry trends

3.6.1 Market capitalization as an impairment indicator

A company's market capitalization is considered in two ways under ASC 350-20. The first is as an indicator of possible impairment that would require an interim assessment of goodwill for impairment. The second, as discussed in section 3.3.1, is as a corroborative source of market information that is utilized to verify that the values used in the goodwill impairment analysis are reasonable. The general principle used in determining whether an interim impairment test for goodwill is required is whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Accordingly, a decline in a company's stock price (both in absolute terms and relative to peers) and market capitalization should be considered in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Situations may arise where companies may need to consider performing an interim goodwill impairment test even though they may have recently performed their annual assessment.

A significant decline in a company's stock price may suggest that the fair value of one or more reporting units has fallen below their carrying amounts, indicating that an interim goodwill impairment test is required. Similarly, declines in the stock prices of other companies in a reporting unit's industry may suggest that an interim test for goodwill impairment is required. To assess whether the decline in market capitalization is an indicator requiring an interim goodwill impairment test, companies should consider the underlying reasons for the decline in the value of the securities (for example, adverse change in the business climate, an adverse action taken by a regulator), as well as the significance of the decline and the length of time the securities have been trading at a depressed value. It should not be assumed that a decline in the market price is temporary and that the stock price will recover.

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[17] Remarks by Steven C. Jacobs, Associate Chief Accountant at the SEC, at the 2008 AICPA National Conference on Current SEC and PCAOB Developments, 9 December 2008.

3.7 Goodwill impairment test in conjunction with another asset (or asset group)

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-31

If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. For example, if a significant asset group is to be tested for impairment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 (thus potentially requiring a goodwill impairment test), the impairment test for the significant asset group would be performed before the goodwill impairment test. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

350-20-35-32

This requirement applies to all assets that are tested for impairment, not just those included in the scope of the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10.

Because the impairment model uses the comparison of the fair value and the carrying amount of the reporting unit as the measure of potential impairment, ASC 350-20 requires that if an impairment test of goodwill and any other asset that is held for use is required at the same time, impairment tests of all other assets (e.g., inventory, long-lived assets) should be completed and reflected in the carrying amount of the reporting unit prior to the completion of the goodwill impairment test. For example, if an impairment test under ASC 360-10 is being completed for a significant group of assets of a reporting unit that also requires a goodwill impairment test, the impairment test for the significant asset group should be completed pursuant to ASC 360-10 and the carrying amount of the asset group adjusted before completing the goodwill impairment test. The following example highlights the order of impairment testing when other assets are tested in conjunction with goodwill.

Illustration 3-12: Order of impairment testing

Assume that ABC Inc. has a reporting unit that includes the following:

Receivables	Inventory
Goodwill	Property, plant and equipment
Indefinite-lived intangibles	Finite-lived intangibles

ABC has determined that the property, plant and equipment and finite-lived intangibles constitute an asset group. ABC also has determined that an interim impairment test is warranted for all assets of the reporting unit, including its goodwill, its asset group and the other individual assets of the reporting unit.

Analysis

ASC 350-20 and ASC 360-10 require the asset group and goodwill to be tested for impairment (after adjustments are made to other assets and liabilities in the group according to other applicable US GAAP) in the following order:

First	*Second*	*Last*
Receivables	Property, plant and equipment	Goodwill
Indefinite-lived intangibles	Finite-lived intangibles	
Inventory		

When an asset group is held for sale, the order of impairment testing differs. Refer to sections 2.3.1.4 and 4.2.3.2 of our FRD, ***Impairment or disposal of long-lived assets***, for further discussion.

In paragraph BC18 of ASU 2017-04, the Board noted that entities in certain industries may be more susceptible to an impairment charge stemming from fair value changes in something other than goodwill because they may have significant assets or liabilities with fair values that could differ significantly from their carrying amounts. As described in paragraph BC21 of ASU 2017-04, the Board discussed concerns that financial statement users could be confused if a goodwill impairment charge results from unrecognized impairment in the value of other assets and liabilities but concluded that the simpler calculation under the one-step test may be better understood. The Board also noted in paragraph BC22 of ASU 2017-04 that financial statement users will have increased insight into situations in which the carrying amount of the net assets of a reporting unit is higher than its fair value.

3.7.1 Acquired entity represents only a part of the reporting unit

When an acquired entity represents only part of the reporting unit (as is typically the case), the fair value of the reporting unit could include the appreciation of goodwill or other assets from earlier acquisitions, unrecognized goodwill or other assets from prior pooling-of-interests and internally generated goodwill or other assets. In these circumstances, unrealized losses on an acquisition may be offset against unrecognized appreciation on other assets within the reporting unit.

For example, a very successful acquisition made years ago that has appreciated would offset impairment of goodwill from a recent acquisition in the same reporting unit that has performed very poorly. The FASB acknowledges the existence of this "cushion" that is built into the impairment model. However, the FASB concluded that keeping track of acquisition-specific goodwill for impairment testing purposes would be almost impossible once an acquired company has been integrated into the acquiring company. The FASB also acknowledges that acquired goodwill or other assets may be offset or replaced by unrecorded internally generated goodwill and concluded that this was appropriate provided that the company is able to maintain the overall value of the reporting unit (e.g., by expending resources on advertising and customer service). However, offsetting such amounts between reporting units is not permitted.

3.8 Identification of reporting units

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-33

The provisions of Topic 280 shall be used to determine the **reporting units** of an entity.

350-20-35-34

A component of an **operating segment** is a reporting unit if the component constitutes a business or a **nonprofit activity** for which discrete financial information is available and segment management, as that term is defined in paragraph 280-10-50-7, regularly reviews the operating results of that component. Subtopic 805-10 includes guidance on determining whether an asset group constitutes a business. Throughout the remainder of this Section, the term *business* also includes a *nonprofit activity*.

350-20-35-35

However, two or more components of an operating segment shall be aggregated and deemed a single reporting unit if the components have similar economic characteristics. Paragraph 280-10-50-11 shall be considered in determining if the components of an operating segment have similar economic characteristics.

350-20-35-36

An operating segment shall be deemed to be a reporting unit if all of its components are similar, if none of its components is a reporting unit, or if it comprises only a single component.

350-20-35-37

Reporting units will vary depending on the level at which performance of the segment is reviewed, how many businesses the operating segment includes, and the similarity of those businesses. In other words, a reporting unit could be the same as an operating segment, which could be the same as a reportable segment, which could be the same as the entity as a whole (entity level).

350-20-35-38

An entity that is not required to report segment information in accordance with Topic 280 is nonetheless required to test goodwill for impairment at the reporting unit level. That entity shall use the guidance in paragraphs 280-10-50-1 through 50-9 to determine its operating segments for purposes of determining its reporting units.

A reporting unit is an operating segment, as that term is used in ASC 280, or one level below the operating segment (referred to as a component), depending on whether certain criteria are met. These criteria are discussed in detail below. An operating segment is the highest level within the company that can be a reporting unit (i.e., the operating segment level is the ceiling), and the component level is the lowest level within the company that can be a reporting unit (i.e., the component level is the floor). In addition, there may be limited cases in which a company has only one operating segment that would be its sole reporting unit. In these cases, goodwill will be tested for impairment at the entity level.

The guidance in ASC 280 states that an operating segment is not necessarily the same as a reportable segment (for which companies must disclose certain information in the segment footnote) because ASC 280 permits companies to aggregate operating segments into reportable segments if certain conditions are met. ASC 280 allows for the aggregation of multiple operating segments into a single reportable segment if either: (1) the operating segments have similar economic and other characteristics, as defined in ASC 280-10-50-11 or (2) the operating segments do not meet the quantitative thresholds to be reported separately but are economically similar and similar in a majority of the other characteristics, as described in ASC 280-10-50-13. For example, just because a company reports segment information on four reportable segments in the notes to its financial statements does not necessarily mean that the company has four operating segments; the company may have properly aggregated two or more operating segments into a single reportable segment. Therefore, to identify their reporting units for purposes of goodwill impairment testing, companies must first identify their operating segments pursuant to ASC 280.

Under the goodwill amortization accounting alternative (as discussed in section 1.1.1), a private company or an NFP may elect to test goodwill for impairment at either the entity or reporting unit level (refer to Appendix A for further guidance on the goodwill amortization accounting alternative). If a private company or an NFP does not elect to apply the goodwill amortization accounting alternative, it is required to assign and then to test goodwill for impairment at the reporting unit level even if the private company or NFP does not report segment information under ASC 280. Our FRD, ***Segment reporting***, provides additional guidance on identifying operating segments.

The following guidance is applied to determine whether the reporting unit should be identified at the operating segment or the component level:

- A component of an operating segment is a reporting unit if the component constitutes a business (as described in our FRD, ***Business combinations***, and discussed further below) for which discrete financial information is available and segment management regularly reviews the operating results of that component. Segment management consists of one or more segment managers.[18]
- Two or more components within the same operating segment should be aggregated and deemed a single reporting unit if the components have similar economic characteristics.[19] However, components of *different* operating segments may not be aggregated into a single reporting unit, even if they have similar economic characteristics.
- An operating segment should be deemed to be a reporting unit if all of its components have similar economic characteristics, if none of its components is a reporting unit or if it is comprised of only a single component. When an operating segment is a reporting unit, an entity may not aggregate the operating segment/reporting unit with any other reporting units (regardless of whether the other reporting units are operating segments or components of operating segments) for purposes of testing goodwill for impairment.

Companies should consider the implementation guidance discussed in ASC 350-20-55-1 through 55-9 when making this determination. See sections 3.8.1 through 3.8.5 for further discussion.

3.8.1 The component constitutes a business or a nonprofit activity

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Implementation Guidance and Illustrations

350-20-55-3

The determination of whether a component constitutes a **business** or a **nonprofit activity** requires judgment based on specific facts and circumstances. The guidance in Section 805-10-55 should be considered in determining whether a group of assets constitutes a business or a nonprofit activity.

The fact that operating information (revenues and expenses) exists for a component of an operating segment does not necessarily mean that the component constitutes a business or a nonprofit activity. For example, a component for which operating information is prepared might be a product line or a brand that is part of a business or nonprofit activity rather than a business or nonprofit activity in and of itself.

Section 2.1.3 of our FRD, ***Business combinations***, provides guidance on the definition of what constitutes a business under ASC 805.

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[18] For purposes of ASC 350, the term "segment manager" has the same meaning as in ASC 280. Generally, an operating segment has a segment manager who is directly accountable to and maintains regular contact with the chief operating decision maker (CODM) to discuss operating activities, financial results, forecasts, or plans for the segment. The term segment manager identifies a function, not necessarily a manager with a specific title. The CODM may also be the segment manager for certain operating segments. A single manager may be segment manager for more than one operating segment. If the characteristics in ASC 280-10-50-1 and 50-3 apply to more than one set of components of an organization but there is only one set for which segment managers are held responsible, that set of components constitutes the operating segments (ASC 280-10-50-7 and 50-8).

[19] ASC 350-20 states that ASC 280-10-50-11 should be considered in determining if the components of an operating segment have similar economic characteristics. Refer to section 3.8.4 for further discussion of similar economic characteristics.

3.8.2 Discrete financial information

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Implementation Guidance and Illustrations

350-20-55-4

The term discrete financial information should be applied in the same manner that it is applied in determining operating segments in accordance with paragraph 280-10-50-1. That guidance indicates that it is not necessary that assets be allocated for a component to be considered an operating segment (that is, no balance sheet is required). Thus, discrete financial information can constitute as little as operating information. Therefore, in order to test **goodwill** for impairment in accordance with this Subtopic, an entity may be required to assign assets and liabilities to reporting units (consistent with the guidance in paragraphs 350-20-35-39 through 35-40).

In applying the guidance in ASC 350-20-55-4, a company that produces only income statement data for a component may be required to assign assets and liabilities to that component if that component meets all of the other criteria of a reporting unit. However, it is not intended that a company assign assets and liabilities resulting in a complete US GAAP balance sheet. Rather, the assigned assets and liabilities should be limited to those that are used in or relate to the operations of the component and that would be considered in determining the fair value of the reporting unit. If the assignment of assets and liabilities to the component requires an excessive amount of arbitrary allocations, this might indicate that the component is either not a business as defined by ASC 805 or it may be economically similar to another component and should be aggregated with that other component. See section 2.1.3 in our FRD, ***Segment reporting***, for further discussion on discrete financial information.

3.8.3 Reviewed by segment management

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Implementation Guidance and Illustrations

350-20-55-5

Segment management, as defined in paragraphs 280-10-50-7 through 50-8, is either a level below or the same level as the chief operating decision maker. According to Topic 280, a segment manager is directly accountable to and maintains regular contact with the chief operating decision maker to discuss operating activities, financial results, forecasts, or plans for the segment. The approach used in this Subtopic to determine reporting units is similar to the one used to determine operating segments; however, this Subtopic focuses on how operating segments are managed rather than how the entity as a whole is managed; that is, reporting units should reflect the way an entity manages its operations.

3.8.4 Similar economic characteristics

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Implementation Guidance and Illustrations

350-20-55-6

Evaluating whether two components have similar economic characteristics is a matter of judgment that depends on specific facts and circumstances. That assessment should be more qualitative than quantitative.

350-20-55-7

In determining whether the components of an operating segment have similar economic characteristics, all of the factors in paragraph 280-10-50-11 should be considered. However, every factor need not be met in order for two components to be considered economically similar. In addition, the determination of whether two components are economically similar need not be limited to consideration of the factors described in that paragraph. In determining whether components should be combined into one reporting unit based on their economic similarities, factors that should be considered in addition to those in that paragraph include but are not limited to, the following:

a. The manner in which an entity operates its business or nonprofit activity and the nature of those operations

b. Whether goodwill is recoverable from the separate operations of each component business (or nonprofit activity) or from two or more component businesses (or nonprofit activities) working in concert (which might be the case if the components are economically interdependent)

c. The extent to which the component businesses (or nonprofit activities) share assets and other resources, as might be evidenced by extensive transfer pricing mechanisms

d. Whether the components support and benefit from common research and development projects.

The fact that a component extensively shares assets and other resources with other components of the operating segment may be an indication that the component either is not a business or nonprofit activity or it may be economically similar to those other components.

350-20-55-8

Components that share similar economic characteristics but relate to different operating segments may not be combined into a single reporting unit. For example, an entity might have organized its operating segments on a geographic basis. If its three operating segments (Americas, Europe, and Asia) each have two components (A and B) that are dissimilar to each other but similar to the corresponding components in the other operating segments, the entity would not be permitted to combine component A from each of the operating segments to make reporting unit A.

350-20-55-9

If two operating segments have been aggregated into a reportable segment by applying the aggregation criteria in paragraph 280-10-50-11, it would be possible for one or more of those components to be economically dissimilar from the other components and thus be a reporting unit for purposes of testing goodwill for impairment. That situation might occur if an entity's operating segments are based on geographic areas. The following points need to be considered in addressing this circumstance:

a. The determination of reporting units under this Subtopic begins with the definition of an operating segment in paragraph 280-10-50-1 and considers disaggregating that operating segment into economically dissimilar components for the purpose of testing goodwill for impairment. The determination of reportable segments under Topic 280 also begins with an operating segment, but considers whether certain economically similar operating segments should be aggregated into a single operating segment or into a reportable segment.

b. The level at which operating performance is reviewed differs between this Subtopic and Topic 280. It is the chief operating decision maker who reviews operating segments and the segment manager who reviews reporting units (components of operating segments). Therefore, a component of an operating segment would not be considered an operating segment for purposes of that Topic unless the chief operating decision maker regularly reviews its operating performance; however, that same component might be a reporting unit under this Subtopic if a segment manager regularly reviews its operating performance (and if other reporting unit criteria are met).

When determining whether the components of an operating segment have similar economic characteristics, an entity should consider all of the factors in ASC 280-10-50-11. Operating segments often exhibit similar long-term financial performance if they have similar economic characteristics. For example, similar long-term average gross margins for two operating segments would be expected if their economic characteristics were similar. Two or more operating segments may be aggregated into a single operating segment if aggregation is consistent with the objective and basic principles in ASC 280, if the segments have similar economic characteristics and if the segments are similar in each of the following areas:

- The nature of the products and services
- The nature of the production processes
- The type or class of customer for their products and services
- The methods used to distribute their products or provide their services
- The nature of the regulatory environment, if applicable (e.g., banking, insurance, public utilities)

As discussed in EITF D-101,[20] the FASB did not intend that *every* factor in ASC 280-10-50-11 be met in order for two components to be considered economically similar. In addition, the Board did not intend that the determination of whether two components are economically similar be limited to consideration of the factors described in ASC 280-10-50-11.

We believe the guidance in ASC 350-20-55-7, which clarifies that the FASB did not intend that all of the factors in ASC 280-10-50-11 must be met in order for two components to be considered economically similar, gives companies greater latitude in evaluating whether components should be aggregated than one may initially perceive based solely on the reference to the guidance in ASC 280-10-50-11. For example, the existence of a wide range of gross profit margins between components does not necessarily mean that those components cannot be aggregated. In addition, we believe that this interpretive guidance may give companies with vertically integrated operations within a single operating segment greater latitude in concluding that the components may be economically similar.

This guidance underscores the fact that components of two separate operating segments may not be aggregated into a single reporting unit. This may be troublesome for companies that report segment information based on geographic areas.

3.8.5 Additional observations (updated June 2023)

Some constituents have noted that two operating segments may have been aggregated into a reportable segment by applying the aggregation criteria in ASC 280-10-50-11 and have inquired about whether one or more of the components of those operating segments can be reporting units. The FASB staff believes it would be possible for one or more of those components to be economically dissimilar from the other components and thus be a reporting unit for purposes of testing goodwill for impairment. In particular, as discussed in EITF D-101, the FASB staff believes that that situation might occur when an entity's operating segments are based on geographic areas. The following points need to be considered in addressing this question:

- The determination of reporting units under ASC 350-20 begins with the definition of an operating segment in ASC 280-10-50-1 and considers disaggregating that operating segment into economically dissimilar components for the purpose of testing goodwill for impairment. The determination of reportable segments under ASC 280 also begins with an operating segment but considers whether certain economically similar operating segments should be aggregated into a single operating segment or into a reportable segment.

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[20] This staff announcement summarized the FASB staff's understanding of the Board's intent with respect to the determination of whether a component of an operating segment is a reporting unit. This guidance is now codified in ASC 350-20 and is discussed in sections 3.8.1 through 3.8.5.

- The level at which operating performance is reviewed differs between ASC 280 and ASC 350 — it is the CODM who reviews operating segments and the segment manager who reviews reporting units (components of operating segments). Therefore, a component of an operating segment would not be considered an operating segment for ASC 280 purposes unless the CODM regularly reviews its operating performance; however, that same component might be a reporting unit under ASC 350-20 if a segment manager regularly reviews its operating performance (and if other reporting unit criteria are met).

Implicit in the FASB's guidance is the fact that identifying the reporting unit begins with the definition of an operating segment. ASC 280 allows for the aggregation of two operating segments into a single reportable segment if the aggregation criteria in ASC 280-10-50-11 are met. If a company has a reportable segment under ASC 280 that consists of aggregated operating segments, it must first look through the aggregated reportable segment to its operating segments to begin the assessment of its reporting units.

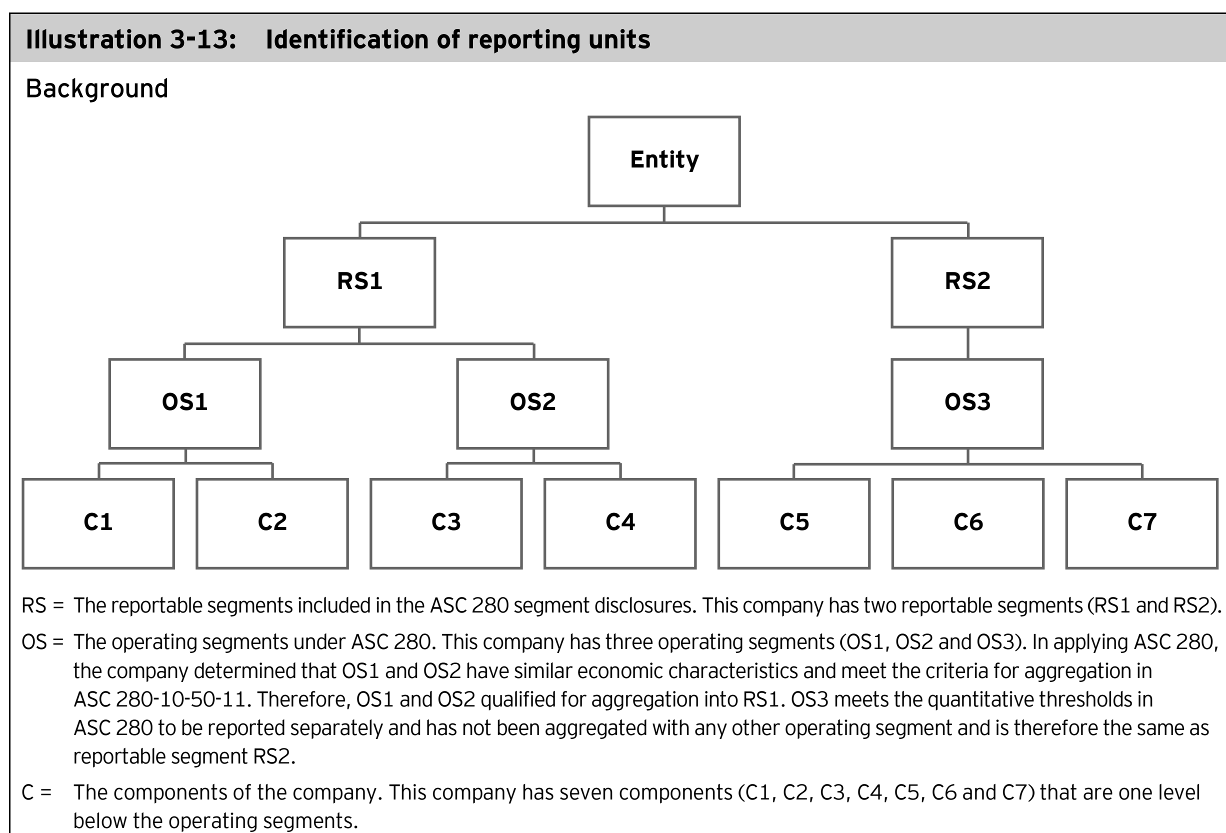
In summary, reporting units will vary depending on the level at which performance of the operating segment is reviewed, how many businesses are included in the operating segment, and the economic similarity of those businesses. The FASB believes that defining the reporting unit one level below the operating segment level (i.e., the component level) is appropriate and aligns with how operating results are regularly reviewed to make decisions about resource allocation and to assess segment performance. However, the FASB also noted that even though segment management might review the operating results of a number of business units, components with similar economic characteristics should be aggregated into one reporting unit because the benefit of goodwill is shared by components of an operating unit that have similar economic characteristics. Because of this sharing of benefits, allocating goodwill among those components would be arbitrary and unnecessary for the purpose of testing goodwill for impairment.

We believe that identifying the reporting units is one of the more difficult and judgmental processes in applying ASC 350-20. Therefore, we believe that companies should document their selection of reporting units and the basis for that selection (and retain that documentation).

The following example illustrates how the concepts described above would be applied.

Illustration 3-13: Identification of reporting units

Background



RS = The reportable segments included in the ASC 280 segment disclosures. This company has two reportable segments (RS1 and RS2).

OS = The operating segments under ASC 280. This company has three operating segments (OS1, OS2 and OS3). In applying ASC 280, the company determined that OS1 and OS2 have similar economic characteristics and meet the criteria for aggregation in ASC 280-10-50-11. Therefore, OS1 and OS2 qualified for aggregation into RS1. OS3 meets the quantitative thresholds in ASC 280 to be reported separately and has not been aggregated with any other operating segment and is therefore the same as reportable segment RS2.

C = The components of the company. This company has seven components (C1, C2, C3, C4, C5, C6 and C7) that are one level below the operating segments.

Identifying the reporting units

- Determining the reporting units of the company begins at the operating segment level (OS1, OS2 and OS3). ASC 350-20 does not allow the aggregation of OS1 and OS2 as permitted under ASC 280 for the purpose of determining the reportable segment.
- The company will apply the reporting unit criteria in ASC 350-20 to the components to determine if the reporting unit should be identified one level below the operating segment. Each component will be evaluated to determine if: (a) it is a business (as defined in ASC 805), (b) discrete financial information is available and (c) the operating results are regularly reviewed by the segment manager(s). If the components of a specific operating segment meet these criteria, they might be deemed to be separate reporting units. However, if they have similar economic characteristics (which is a matter of judgment based on individual facts and circumstances), these components must be aggregated into one reporting unit.

For example, assume C5, C6 and C7 each are businesses for which discrete financial information is available, and segment (OS3) management regularly reviews their individual operating results. If C5, C6 and C7 all have dissimilar economic characteristics, then there would be three reporting units within OS3 as each of the components would be a reporting unit. If C5 and C6 have similar economic characteristics, but C7 does not have similar economic characteristics to C5 and C6, then there would be two reporting units within OS3: (1) C5 and C6 combined, and (2) C7. If C5, C6 and C7 all have similar economic characteristics, the reporting unit would be the operating segment (OS3).

- Components of different operating segments may not be aggregated even if they have similar economic characteristics. As such, if C2 and C3 had similar economic characteristics, they could not be aggregated because C2 and C3 are components of different operating segments.

Conclusions

- The company will have at least three reporting units based on the fact that three operating segments have been identified.
- The company can have as many as seven reporting units (the number of components). The number will depend on how many components meet the reporting unit criteria and, if so, the number of potential components that must be aggregated based on similarity of economic characteristics, which is based on judgment.
- The company will not have more than seven reporting units. Even if levels exist below the components that meet the reporting unit criteria, ASC 350-20 prohibits identifying the reporting unit more than one level below the operating segment.

In general, we do not believe that identifying multiple reporting units below the operating segment level would otherwise call into question a company's disclosure of reportable segments under ASC 280, provided that the company appropriately applied the provisions of that guidance. A key distinction between an operating segment and a component is the level of review of the operating results of each. The CODM reviews the results of an operating segment, while a segment manager reviews the results of a component. A segment manager is normally directly accountable to and maintains regular contact with the CODM (ASC 280-10-50-7 and 50-8). However, the SEC staff continues to emphasize the application of ASC 280 and often questions whether registrants properly identify operating segments under ASC 280, including the effect of changes in operating segments on an entity's reporting units.

ASC 350-20 does not require a company to disclose the identity or number of its reporting units. However, if the SEC staff reviews a company's segment reporting, management should be prepared to justify the reporting units identified.

3.9 Assigning assets acquired and liabilities assumed to reporting units (updated June 2023)

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-39

For the purpose of testing goodwill for impairment, acquired assets and assumed liabilities shall be assigned to a reporting unit as of the acquisition date if both of the following criteria are met:

a. The asset will be employed in or the liability relates to the operations of a reporting unit.

b. The asset or liability will be considered in determining the fair value of the reporting unit.

Assets or liabilities that an entity considers part of its corporate assets or liabilities shall also be assigned to a reporting unit if both of the preceding criteria are met. Examples of corporate items that may meet those criteria and therefore would be assigned to a reporting unit are environmental liabilities that relate to an existing operating facility of the reporting unit and a pension obligation that would be included in the determination of the fair value of the reporting unit. This provision applies to assets acquired and liabilities assumed in a business combination and to those acquired or assumed individually or with a group of other assets.

Because the goodwill impairment test is performed at the reporting unit level, an entity needs to assign assets acquired and liabilities assumed to a reporting unit as of the date of acquisition. The purpose of this assignment process is to establish the "carrying amount" of the reporting units so that the quantitative impairment test (i.e., the comparison of the carrying amount of a reporting unit to its fair value) can be performed.

Both of the following criteria should be met for an acquired asset or assumed liability to be assigned to a reporting unit:

- The asset will be employed in or the liability relates to the operations of a reporting unit.
- The asset or liability will be considered in determining the fair value of the reporting unit.

We note that ASC 350-20 does not require the assignment of *all* assets acquired and liabilities assumed to a reporting unit; only those meeting the above criteria should be assigned. Further, the Board said one objective of the process is to assign to a reporting unit all of the assets and liabilities that would be necessary for the reporting unit to operate as a business. For example, acquired cash or marketable securities that are unrelated to any reporting unit and its working capital requirements, but are general corporate assets of the acquired company, need not be assigned to a reporting unit. In addition, an entity's debt may be at the corporate level and/or reside at a subsidiary. The level at which debt resides within the consolidated entity may indicate how the debt relates to the operations of its reporting units.

An entity should assign debt to the reporting unit if both of the following apply:

- The debt relates to the operations of the reporting unit.
- The debt is likely to be assumed by the buyer in the event the reporting unit is sold.

As a result, absent the situations noted above, we believe that in applying the provisions in ASC 350-20-35-39, an entity would not typically assign general corporate debt to its reporting units.

Also, the assets and liabilities assigned need not constitute a complete US GAAP balance sheet. Further, while ASC 350-20 refers to acquired assets and assumed liabilities, assets and liabilities that are generated or originated by a company should also be assigned to reporting units based on the criteria above.

3.9.1 Determining the manner in which the fair value and carrying amount of a reporting unit is derived (enterprise versus equity) (updated June 2023)

Entities use either an enterprise premise or an equity premise to determine the fair value and carrying amount of a reporting unit. An enterprise premise considers the value attributable to the entity's entire capital structure, including both equity and debt (i.e., total assets net of operating liabilities), while an equity premise considers only the value attributable to the entity's equity holders (i.e., net assets).

US GAAP does not prescribe whether the fair value and carrying amount of a reporting unit should be determined based on an enterprise or an equity premise. However, the manner in which the fair value and carrying amount of the reporting unit are determined should be consistent.[21] As discussed in section 3.9 above, the assignment of debt to a reporting unit considers whether the debt relates to the operations of the reporting unit and is likely to be assumed by the buyer in a hypothetical sale. Accordingly, the treatment of debt should be evaluated consistently in measuring both the fair value and carrying amount of the reporting unit. In practice, we understand that entities often use an enterprise premise when determining the fair value and carrying amount of their reporting units consistent with the considerations outlined above. This may be the case when an entity is comprised of multiple reporting units and management determines that debt is not likely to be assumed by the buyer in a hypothetical sale.

When a reporting unit's fair value and carrying amount is based on an equity premise, all liabilities (including debt) are available for assignment to the reporting unit and are assigned if they meet the criteria discussed previously. Conversely, when a reporting unit's fair value and carrying amount is based on an enterprise premise, debt is excluded from the liabilities assigned to the reporting unit. When the carrying amount of debt approximates its fair value, using either premise in the quantitative impairment test would produce the same result. In addition, when no debt is assigned to the reporting unit, the carrying amount of the reporting unit will remain the same, regardless of which premise is used.

Furthermore, when the carrying amount of an asset or liability equals its fair value, its assignment to a reporting unit will affect both the carrying amount and the fair value of the reporting unit equally. However, when the carrying amount of an asset or liability differs from its fair value, the use of either the enterprise or equity premise may affect the outcome of the quantitative impairment test.

Illustration 3-14: Calculating goodwill impairment using an enterprise vs. equity premise

Company A is performing its annual goodwill impairment assessment and has concluded that a quantitative test is required for its Reporting Unit B. Reporting Unit B has the following assets and liabilities:

Goodwill	$	200
Other assets	$	700
Operating liabilities	$	(200)
Debt	$	(400)

The fair value of Reporting Unit B using an enterprise premise was determined to be $600. For purposes of this illustration, we will assume that the fair value of the debt is equal to its carrying value.

[21] BC4 of ASU 2010-28 and BC49 of ASU 2017-04

Analysis

The following table shows the calculation of goodwill impairment using both the enterprise and equity premise.

	Enterprise premise	Equity premise
Total assets	$ 900	$ 900
Operating liabilities	(200)	(200)
Debt	–	(400)
Carrying amount	$ 700	$ 300
Fair value, enterprise premise	$ 600	$ 600
Fair value of debt		(400)
Fair value, equity premise		$ 200
Goodwill impairment	$ 100	$ 100

3.9.2 Assignment of a contingent consideration asset or liability

Often the consideration transferred in a business combination may include a contingent consideration arrangement. ASC 805 states that an acquirer should recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree. That arrangement may represent an asset or liability.

When determining whether to assign a contingent consideration asset or liability to a reporting unit, the criteria in ASC 350-20-35-39 should be considered. If the reporting unit is obligated to pay or has the right to receive the contingent consideration, we believe the contingent consideration asset or liability generally would be assigned to that reporting unit. In addition, it may be appropriate to assign a contingent consideration arrangement to a reporting unit even if the reporting unit is not the legal counterparty to the arrangement. This may arise if the reporting unit includes the business acquired and a market participant would assume that obligation or right if the reporting unit was sold in a transaction.

3.10 Assets or liabilities used in multiple reporting units

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-40

Some assets or liabilities may be employed in or relate to the operations of multiple reporting units. The methodology used to determine the amount of those assets or liabilities to assign to a reporting unit shall be reasonable and supportable and shall be applied in a consistent manner. For example, assets and liabilities not directly related to a specific reporting unit, but from which the reporting unit benefits, could be assigned according to the benefit received by the different reporting units (or based on the relative fair values of the different reporting units). In the case of pension items, for example, a pro rata assignment based on payroll expense might be used. A reasonable allocation method may be very general. For use in making those assignments, the basis for and method of determining the fair value of the acquiree and other related factors (such as the underlying reasons for the acquisition and management's expectations related to dilution, synergies, and other financial measurements) shall be documented at the acquisition date.

Some assets or liabilities may be employed in or related to the operations of multiple reporting units. The methodology used to determine the amounts to assign to each reporting unit in these cases should be reasonable, supportable and applied in a consistent manner. For example, assets and liabilities that are

not directly related to a specific reporting unit, but provide benefits to the reporting unit, could be assigned according to the benefit received by the different reporting units or based on the relative fair values of the reporting units. One example of basing the assignment on the benefits received would be assigning pension obligations in proportion to the payroll expense of the reporting units. The assignment method used for particular assets and liabilities should be applied consistently. The basis for and method of determining the fair value of the acquiree and other related factors (such as the underlying reasons for the acquisition and management's expectations related to dilution, synergies and other financial measurements) in assigning assets and liabilities to multiple reporting units should be documented at the acquisition date.

3.10.1 Assets or liabilities accounted for at the corporate level

ASC 350-20 also requires the assignment of all applicable assets and liabilities that may be accounted for at the corporate level, including environmental liabilities using the criteria noted in section 3.10. Additionally, when assets or liabilities do not meet the criteria in section 3.10 and are not included in the carrying amount of the reporting unit, they should be treated consistently in determining the fair value of the reporting unit. See section 3.1 for discussion of the goodwill impairment test.

For example, if the fair value of the reporting unit is determined based on discounted future cash flows of the reporting unit on an unleveraged (or debt-free) basis (a common enterprise valuation methodology), the debt associated with the reporting unit should be treated consistently (i.e., excluded) in determining the carrying amount of the reporting unit so that the comparison of those values is meaningful. On the other hand, if the debt relates to the operations of the reporting unit and would be considered in determining its fair value (e.g., if a property assigned to the reporting unit secures a mortgage), the company should include the debt in both the determination of the fair value and the carrying amount of the reporting unit. See previous discussion at section 3.9.1.

The goal of such assignment is to confirm that comparisons of the fair value to the carrying amount of reporting units are on an "apples-to-apples" basis. Therefore, this assignment requires the company to understand how items such as debt, accounts receivable, accounts payable, inventories, accrued liabilities and other working capital items are treated in the valuation of the reporting unit so that those items are treated consistently in assigning assets and liabilities to reporting units. Another objective of this exercise is to assign to the reporting units all of the assets and liabilities that would be necessary for that reporting unit to operate as a business. Therefore, to the extent that corporate items are reflected in the fair value of a reporting unit, they should be assigned to the reporting unit. For example, pension liabilities related to active employees would normally be assumed when acquiring a business. Therefore, that type of liability should generally be included in determining the fair value (and also the carrying amount) of the reporting unit.

The FASB acknowledges that the requirement to assign corporate level assets and liabilities could be considered inconsistent with ASC 280, which requires that the reported segment include only those assets that are included in the measure of the segment's assets that is used by the CODM. Therefore, goodwill and other assets may not be included in reported segment assets. ASC 350-20 does not literally require that goodwill and all other related assets and liabilities assigned to reporting units for the purpose of testing goodwill for impairment be included in a company's reported segment assets. Rather, the assignment process is simply a method of identifying the reporting unit to which assets and liabilities relate and determining the consolidated company's carrying amount of reporting units. However, even though an asset may not be included in reported segment assets, the asset or liability should be assigned to the reporting unit for the purpose of the goodwill impairment test in accordance with the guidance discussed above.

This assignment process does not affect a parent company's cost basis in its subsidiaries, nor does it require the subsidiary to change its basis in any assets or liabilities used for external reporting purposes (i.e., the guidance does not require "pushdown" accounting in the separate financial statements of subsidiaries). However, the bases of the reporting unit's assets and liabilities used for goodwill impairment tests should reflect the parent's bases.

The following example illustrates the evaluation of the two criteria for assigning assets and liabilities to a reporting unit for an entity with multiple reporting units when an asset is shared by the reporting units.

Illustration 3-15: Allocation of a brand intangible maintained at the corporate level to reporting units

Parent, a PBE, acquired Company A in a business combination on 1 July 20X4. As of the acquisition date, Parent determined that Company A's operations would be split between Parent's two existing reporting units, RU 1 and RU 2. However, Company A's brand name (established in conjunction with the acquisition by Parent) is maintained at the corporate level but benefits both RU 1 and RU 2. That is, both RU 1 and RU 2 utilize the brand name to support their revenues without a charge from Parent. Parent determines that the brand name would be considered in determining the fair value of both reporting units. Parent performs its annual goodwill impairment assessment as of 1 October 20X4. Assume that as of 1 October 20X4, the fair values of RU 1 and RU 2 are $15 million and $5 million, respectively, and the carrying amount of the brand name is $4 million. EBITDA for the three months ended 30 September 20X4 was $4 million and $1 million for RU 1 and RU 2, respectively.

Analysis

We believe that there are various approaches by which Parent could assign the brand name to RU 1 and RU 2 that could be acceptable depending on the facts and circumstances. Approach 1 typically would be appropriate when it is likely that the reporting units sharing the brand name would be sold without ownership of the brand name. Approach 2 typically would be appropriate when one reporting unit is the predominant user of the brand name. Approaches 3 and 4 could be appropriate when both reporting units benefit equally from the brand name.

Approach 1 — Assign based on an assumed rental of the brand name by each reporting unit

Under this approach, Parent is considered the owner of the brand name and it is assumed that each reporting unit "rents" the brand name from Parent. Accordingly, the carrying amount of the brand name would not be assigned to either RU 1 or RU 2. Rather, the determination of the fair value of both reporting units would include an assumption relating to the cost of renting the brand name. For example, if Parent uses a discounted cash flow method to determine the fair value of its reporting units, Parent would include a cash outflow based on a market royalty rate relating to the rental of the brand name by each reporting unit.

When applying a market royalty rate for the use of a brand name, Parent should consider whether the costs related to supporting the brand name (for example, advertising and marketing) are included at the reporting unit level or at the corporate level (that is, outside of the reporting unit). Because the reporting units are assumed to rent the brand name rather than own it, typically the reporting units would not be responsible for the costs related to supporting the brand name. Therefore, those costs would not be included at the reporting unit level. If those costs were included at the reporting unit level, this fact would need to be considered when selecting the royalty rate so as to avoid double counting.

Approach 2 — Assign based on an assumed ownership of the brand name by one reporting unit and rental of the brand name by the other reporting unit

Under this approach, Parent would assume that one of its reporting units (for this example, assume RU 1) owns the brand name and that RU 2 is "renting" the brand name from RU 1. Accordingly, RU 1 would be assigned the full carrying amount of the brand name. Assuming Parent uses a discounted cash flow method to measure the fair value of its reporting units, Parent would include in its determination of the fair value of RU 1 a cash inflow based on a market royalty rate related to the rental of the brand name. Parent would then include in its determination of the fair value of RU 2 a cash outflow based on a market royalty rate related to the rental of the brand name (similar to the exercise described in Approach 1).

Under this approach, the costs related to supporting the brand name would be assigned to the reporting unit assumed to own the brand name (in this case RU 1); no such costs would be allocated to the reporting unit assumed to rent the brand name (in this case RU 2).

Approach 3 — Assign based on benefits received

Under this approach, assume that Parent determines that reporting unit EBITDA is an appropriate measure of the benefits received by each reporting unit. This approach would result in assigning the carrying amount of the brand name of $4 million to RU 1 ($3.2 million[1]) and to RU 2 ($0.8 million[2]). If a discounted cash flow method were used to measure the fair value of the reporting unit, there would be no cash outflow related to the use of the brand name because it would be assumed to be owned by each reporting unit. Also, the costs related to supporting the brand name would need to be considered and, in this situation, would be allocated between RU 1 and RU 2 because both reporting units benefit from the use of the brand name.

Approach 4 — Assign based on relative fair values of the reporting units

This approach would result in assigning the carrying amount of the brand name based on the relative fair values of the reporting units. As a result, $3 million[3] would be assigned to RU 1 and $1 million[4] would be assigned to RU 2. Similar to Approach 3, if a discounted cash flow method were used to measure the fair value of the reporting unit, there would be no cash outflow related to the use of the brand name because it would be assumed to be owned by each reporting unit. Also, the costs related to supporting the brand name would need to be considered and, in this situation, would be allocated between RU 1 and RU 2 because both reporting units benefit from the use of the brand name.

We believe that this approach would be appropriate only when the reporting units benefit from the brand name in direct proportion to their fair values.

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[1] Amount assigned to RU 1 was calculated as 80% (RU 1 EBITDA of $4 million divided by total EBITDA of $5 million) multiplied by the $4 million carrying amount of the brand name.

[2] Amount assigned to RU 2 was calculated as 20% (RU 2 EBITDA of $1 million divided by total EBITDA of $5 million) multiplied by the $4 million carrying amount of the brand name.

[3] Amount assigned to RU 1 was calculated as 75% (RU 1 fair value of $15 million divided by total fair value of $20 million) multiplied by the $4 million carrying amount of the brand name.

[4] Amount assigned to RU 2 was calculated as 25% (RU 2 fair value of $5 million divided by total fair value of $20 million) multiplied by the $4 million carrying amount of the brand name.

3.11 Assigning goodwill to reporting units

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-41

For the purpose of testing goodwill for impairment, all goodwill acquired in a business combination shall be assigned to one or more reporting units as of the acquisition date. Goodwill shall be assigned to reporting units of the acquiring entity that are expected to benefit from the synergies of the combination even though other assets or liabilities of the acquired entity may not be assigned to that reporting unit. The total amount of acquired goodwill may be divided among a number of reporting units. The methodology used to determine the amount of goodwill to assign to a reporting unit shall be reasonable and supportable and shall be applied in a consistent manner. In addition, that methodology shall be consistent with the objectives of the process of assigning goodwill to reporting units described in paragraphs 350-20-35-42 through 35-43.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-20-35-41

For the purpose of testing goodwill for impairment, all goodwill acquired in a business combination or recognized by a **joint venture** upon formation shall be assigned to one or more reporting units as of the acquisition date or the joint venture **formation date**. Goodwill shall be assigned to reporting units of the acquiring entity that are expected to benefit from the synergies of the combination even though other assets or liabilities of the acquired entity may not be assigned to that reporting unit. The total amount of acquired goodwill may be divided among a number of reporting units. The methodology used to determine the amount of goodwill to assign to a reporting unit shall be reasonable and supportable and shall be applied in a consistent manner. In addition, that methodology shall be consistent with the objectives of the process of assigning goodwill to reporting units described in paragraphs 350-20-35-42 through 35-43.

350-20-35-42

In concept, the amount of goodwill assigned to a reporting unit would be determined in a manner similar to how the amount of goodwill recognized in a business combination is determined. That is:

a. An entity would determine the fair value of the acquired business (or portion thereof) to be included in a reporting unit—the fair value of the individual assets acquired and liabilities assumed that are assigned to the reporting unit. Subtopic 805-20 provides guidance on assigning the fair value of the acquiree to the assets acquired and liabilities assumed in a business combination.

b. Any excess of the fair value of the acquired business (or portion thereof) over the fair value of the individual assets acquired and liabilities assumed that are assigned to the reporting unit is the amount of goodwill assigned to that reporting unit.

c. Subparagraph not used.

350-20-35-43

If goodwill is to be assigned to a reporting unit that has not been assigned any of the assets acquired or liabilities assumed in that acquisition, the amount of goodwill to be assigned to that unit might be determined by applying a with-and-without computation. That is, the difference between the fair value of that reporting unit before the acquisition and its fair value after the acquisition represents the amount of goodwill to be assigned to that reporting unit.

350-20-35-44

This Subtopic does not require that goodwill and all other related assets and liabilities assigned to reporting units for purposes of testing goodwill for impairment be reflected in the entity's reported segments. However, even though an asset may not be included in reported segment assets, the asset (or liability) shall be allocated to a reporting unit for purposes of testing for impairment if it meets the criteria in paragraph 350-20-35-39.

Testing goodwill for impairment at the reporting unit level requires that *all* goodwill be assigned to one or more reporting units as of the date of acquisition. All goodwill must be assigned to a reporting unit, regardless of its source. For example, even goodwill that arises from applying pushdown accounting pursuant to ASC 805 and fresh-start accounting pursuant to ASC 852 must be assigned to a reporting unit.

If goodwill from an acquisition is to be assigned to more than one reporting unit, ASC 350-20 requires the methodology used be reasonable, supportable and applied in a consistent manner. Goodwill is assigned to the reporting units that are expected to benefit from the synergies of the combination even though other assets or liabilities of the acquired company may not be assigned to those reporting units. If some portion of goodwill is deemed to relate to the entity as a whole, that portion of goodwill should be assigned to all of the reporting units of the entity in a reasonable and supportable manner.

In addition to a methodology that is reasonable and supportable, the methodology used should be consistent with the objectives of ASC 350-20-35-42 when goodwill is assigned to more than one reporting unit at the acquisition date.

We believe that if all of the assets and liabilities of an acquired business are assigned to a specific reporting unit, then the goodwill associated with that acquisition should also be assigned to that reporting unit, unless it is clear that some other reporting unit is expected to benefit from the acquisition. If a reporting unit is expected to benefit from the acquisition even though it was assigned no assets or liabilities of the acquired company, then the "with-and-without" method is the best assignment method.

This approach requires determining the fair value of the reporting unit(s) that benefit from the acquisition. In many circumstances, the acquirer's calculation of the consideration transferred may include assumptions about synergistic benefits that the acquiring company expects; in that case, the amount of goodwill to assign to the reporting units benefited may be derived from the calculation of consideration transferred. Other reasonable and supportable methods (other than the with-and-without method) may be appropriate, depending on the facts and circumstances. However, the assignment method chosen should not result in an immediate impairment of the acquired goodwill.

Depending on the facts and circumstances, we believe that the with-and-without method could be used to assign goodwill to a reporting unit that has assets and/or liabilities assigned to it. That might be the case when the with-and-without method would provide a more reasonable and supportable assignment of goodwill based on how a company's reporting units are expected to benefit from the synergies of the acquisition.

The following example illustrates the assignment of goodwill to more than one reporting unit using both the direct and with-and-without methods.

Illustration 3-16: Goodwill assigned to more than one reporting unit

Assume that Company A completes the acquisition of Company B for consideration transferred of $50 million. The fair value of the net working capital acquired is $8 million, the fair value of the acquired identifiable tangible and intangible assets is $27 million and goodwill is $15 million. The acquisition is to be integrated into two of Company A's reporting units. There is no synergistic goodwill attributable to other reporting units.

(in millions)	**Acquired net assets to be assigned to:**		
	RU 1	**RU 2**	**Total**
Fair value of:			
Net working capital	$ 5	$ 3	$ 8
Tangible and intangible net assets	15	12	27
Net assets to be assigned	$ 20	$ 15	$ 35

Analysis — direct method:

Using the direct method, Company A assigns goodwill to the reporting units based on the difference between the fair value of the net assets and the fair value of the acquired business (or portion thereof) to be assigned to the reporting units.

	RU 1	**RU 2**	**Total**
Fair value of acquired business (or portion thereof)*	$ 33	$ 17	$ 50
Fair value of net assets to be assigned (from above)	(20)	(15)	(35)
Goodwill assigned to reporting units	$ 13	$ 2	$ 15

Analysis — "with-and-without" method:

Using the with-and-without method, Company A assigns goodwill to the reporting units based on the difference between the fair value of the net assets to be assigned and the fair value of the acquired business (or portion thereof). However, the fair value of the acquired business (or portion thereof) is determined using a with-and-without method.

	RU 1	**RU 2**	**Total**
Fair value of reporting unit after acquisition	$ 95	$ 80	$ 175
Fair value of reporting unit prior to acquisition	(62)	(63)	(125)
Fair value of acquired business or asset group*	33	17	50
Fair value of net assets to be assigned (from above)	(20)	(15)	(35)
Goodwill assigned to reporting units	$ 13	$ 2	$ 15

* In this example, the sum of the fair values of the acquired businesses or asset groups equals the purchase price. In other circumstances, this may not be the case due to synergies and other characteristics related to the relationship between the businesses. In those cases, a reasonable and supportable method (e.g., a pro rata allocation) should be used to assign any excess goodwill remaining after this allocation process.

3.11.1 Entity-level goodwill

In certain circumstances, goodwill recognized relates to the company as a whole instead of particular reporting units. For example, goodwill that arises when a company applies pushdown accounting or excess reorganization value recognized pursuant to ASC 852 often relates to the company as a whole. In those circumstances, the net assets would have been adjusted to their fair values, and an assignment method might be based on the relative excess of fair value of the reporting units over the net assets of the reporting units. An assignment method based on the relative fair values of all reporting units might be appropriate provided that it does not result in an immediate goodwill impairment charge.

3.11.2 Assignment of goodwill to reporting units for a mining entity

The EITF has considered the issue of whether an entity in the mining industry should assign goodwill to a reporting unit that consists of an individual operating mine. Constituents raised questions because assigning goodwill to an operating mine results in a day-two impairment of any assigned goodwill due to the fact that the fair value of the reporting unit consists primarily of mineral deposits, which is a depleting asset. The EITF reached a consensus that goodwill should be assigned to a reporting unit that includes an operating mine. The EITF acknowledged that the assignment of goodwill to an individual operating mine likely will result in an eventual goodwill impairment due to the depleting nature of the primary asset of the reporting unit and could result in a day-two goodwill impairment. However, the EITF agreed that the guidance in ASC 350 was clear — goodwill should be assigned to reporting units, and an individual operating mine may constitute a reporting unit. As a result, the EITF agreed to discontinue discussion of this Issue and removed it from its agenda.

3.11.3 Delay in assignment of goodwill

As noted above, goodwill is assigned, as of the acquisition date, to one or more reporting units that are expected to benefit from the synergies of the business combination. In certain situations, a company may be unable to determine the fair values to be assigned to all of the acquired identifiable assets and assumed liabilities for some time after the business combination and may utilize all or a substantial portion of the measurement period allowed by ASC 805 to finalize the initial accounting for the business combination. See section 7.3 in our FRD, ***Business combinations***, for more information on the measurement period.

If the fair value of the identifiable assets acquired and liabilities assumed are determined only provisionally at the end of the current reporting period, ASC 350-20-50-1 recognizes that an entity may not have completed the assignment of goodwill to the reporting units. However, prior to finalization of the accounting for a business combination, an entity might be able to provisionally assign some or all of the goodwill. Neither the guidance in ASC 350 nor the Basis for Conclusions of Statement 142 addressed the assignment of provisional goodwill. However, we believe that the assignment of goodwill should not be delayed because the accounting for the business combination is incomplete. Because ASC 350 has specific disclosure requirements and ASC 280 requires companies that report segment information to provide information about goodwill in total and for each reportable segment, we believe that provisionally determined goodwill should be assigned at the end of a reporting period. Once the accounting for the business combination is finalized, the provisional amounts assigned should be reassessed and adjustments to the goodwill that was provisionally assigned should be made as necessary.

In addition, there is required disclosure of situations where a portion of goodwill has not yet been assigned to a reporting unit as of the date of a company's financial statements. If an acquisition closes shortly before the company's year-end, the company may not have sufficient time to complete its acquisition accounting and/or assignment of goodwill to reporting units. The company should confirm that all goodwill is assigned to the reporting units before it performs its next annual impairment test. However, if it is determined that impairment indicators exist, we believe this goodwill must be assigned to a reporting unit and tested for impairment.

3.11.4 Impairment testing of recently acquired goodwill

There is no requirement to test goodwill for impairment on the date of acquisition. In addition, paragraph BC382 of Statement 141(R) states that:

> "The Boards acknowledged that overpayments are possible and, in concept, an overpayment should lead to the acquirer's recognition of an expense (or loss) in the period of the acquisition. However, the Boards believe that in practice any overpayment is unlikely to be detectable or known at the acquisition date. That is, the Boards are not aware of instances in which a buyer knowingly overpays or is compelled to overpay a seller to acquire a business. Even if an acquirer thinks it might have overpaid in some sense, the amount of overpayment would be difficult, if not impossible, to quantify. Thus, the Boards concluded that in practice it is not possible to identify and reliably measure an overpayment at the acquisition date. Accounting for overpayments is best addressed through subsequent impairment testing when evidence of a potential overpayment first arises."

We believe that this suggests that an entity should test the acquired goodwill (whether provisionally determined or final) for impairment if impairment indicators exist. In addition, if the goodwill assessment date follows shortly after an acquisition, a goodwill impairment test should be performed irrespective of the status of the accounting for the business combination.

3.11.4.1 Impairment testing in a subsequent period

We believe that **if** an entity tested provisional goodwill for impairment, that impairment test should be retrospectively updated to account for any changes resulting from a qualifying measurement-period adjustment as described in ASC 805. Qualifying measurement-period adjustments relate to facts and circumstances that existed as of the acquisition date and any resulting change to the goodwill balance reflects what the goodwill balance would have been as of the acquisition date. Therefore, any impairment test performed in the provisional period should be updated to include the revised carrying value of the reporting unit and/or goodwill balance because it may result in a different impairment charge than what was originally determined.

See section 7.3.3 in our FRD, ***Business combinations***, for more information on qualifying measurement-period adjustments.

Illustration 3-17: Impairment test of provisional goodwill during the measurement period

Consider the following facts:

- Company A acquired Company B on 1 August 20X0
- Company A included Company B in RU 1, one of its 3 existing reporting units
- Prior to the acquisition of Company B, RU 1 had existing goodwill of $8 million
- Company A's annual goodwill assessment date is 1 October 20X0
- The accounting for the business combination was incomplete as of 1 October 20X0
- Preliminary goodwill recognized in the acquisition of Company B is $50 million, all of which was assigned to RU 1 (resulting in a total of $58 million of goodwill assigned to RU 1)
- Following the acquisition, the carrying value of RU 1 was $600 million
- From the date of acquisition through 1 October 20X0, the fair value of RU 1 declined to $591 million

The assessment of goodwill for impairment as of 1 October 20X0 resulted in Company A recognizing a goodwill impairment charge of $9 million for RU 1 leaving a goodwill balance of $49 million. On 1 February 20X1, Company A recognized a qualifying measurement-period adjustment that increased the goodwill from the acquisition assigned to RU 1 by $10 million with a corresponding $10 million decrease to the amount recorded on the acquisition date for an amortizable intangible asset. Assume that the portion of amortization expense related to the qualifying measurement-period adjustment of the intangible asset from 1 August 20X0 to 1 October 20X0 was $2 million. The effects of taxes have been ignored.

Analysis

Because Company A recognized a qualifying measurement-period adjustment and tested provisional goodwill for impairment prior to making the qualifying measurement period adjustment, it should update the goodwill impairment test performed as of 1 October 20X0 to reflect the $2 million increase in the carrying value of RU 1. The increase in the carrying value of RU 1 relates to the reversal of the $2 million of amortization expense initially recognized during the period of 1 August 20X0 to 1 October 20X0.

As a result, the impairment charge is $11 million for RU 1 (the original $9 million impairment charge plus an additional $2 million resulting from the provisional adjustment that increased the carrying value of RU 1), to arrive at a goodwill balance of $47 million as of 1 October 20X0.

Consistent with the guidance on measurement-period adjustments, Company A would recognize the additional $2 million impairment charge in the current period and would present or disclose the amount of the adjustment that would have been recognized in prior periods, which in this case is the entire additional $2 million impairment charge. Similarly, if the measurement-period adjustment had resulted in a decrease of $2 million in the carrying value of RU 1 from the provisional amount tested, Company A would recognize a corresponding reduction in the impairment charge of $2 million.

3.11.5 Effect on segment disclosure

The requirement to assign all goodwill to reporting units does not mean that goodwill must be added to the measure of reportable segment assets for purposes of reporting segment information in accordance with ASC 280 unless the company actually assigns goodwill for internal reporting purposes. ASC 280 requires disclosure of segment assets based on information provided to the CODM in assessing performance and allocating resources. The requirement to assign all goodwill to reporting units in accordance with ASC 350-20 does not change the ASC 280 disclosure requirement. However, companies must disclose the carrying amount of goodwill along with any changes in that carrying amount by reportable segment. See section 4.2.1 further discussion.

3.12 Reorganization of a company's reporting structure

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-45

When an entity reorganizes its reporting structure in a manner that changes the composition of one or more of its reporting units, the guidance in paragraphs 350-20-35-39 through 35-40 shall be used to reassign assets and liabilities to the reporting units affected. However, goodwill shall be reassigned to the reporting units affected using a relative fair value allocation approach similar to that used when a portion of a reporting unit is to be disposed of (see paragraphs 350-20-40-1 through 40-7).

350-20-35-46

For example, if existing reporting unit A is to be integrated with reporting units B, C, and D, goodwill in reporting unit A would be assigned to units B, C, and D based on the relative fair values of the three portions of reporting unit A prior to those portions being integrated with reporting units B, C, and D.

Under ASC 350-20, assets (including goodwill) and liabilities must be reassigned to reporting units when a company reorganizes its reporting structure such that the composition of one or more of its reporting units is changed. The assets (excluding goodwill) and liabilities of the affected reporting units should be reassigned using the guidance in ASC 350-20-35-39 and 35-40. However, goodwill should be reassigned to the affected reporting units using a relative fair value approach similar to that used when a portion of a reporting unit is disposed of. That is, the goodwill is assigned to the businesses in the reporting units based on their relative fair values and then follows the businesses into the new reporting unit in the reorganization. An entity should account for any change in its reporting units prospectively.

The FASB concluded that reorganizing a reporting unit is similar to selling a business that is part of a reporting unit, and therefore, the same methodology should be used to assign goodwill in a reorganization. If reporting units are being divided in the reorganization, the relative fair value approach will need to be applied. However, this model is not necessary in cases in which reporting units are being combined into a new reporting unit. In this case, we believe that the goodwill of the existing reporting units is simply combined in the new reporting unit.

In general, we believe that a goodwill impairment test should be performed immediately before and after a company reorganizes its reporting structure if the reorganization would affect the composition of one or more of its reporting units. In this circumstance, performing the impairment test immediately before and after the reorganization would help to confirm that the reorganization is not potentially masking a goodwill impairment charge.

Illustration 3-18: Goodwill assigned to a new reporting unit

Assume that Company A currently has three reporting units: RU 1, RU 2 and RU 3. Company A reorganizes its reporting structure and transfers portions of RU 1, RU 2 and RU 3 into a newly formed reporting unit, RU 4. Relevant amounts per reporting unit are as follows:

(in millions)	**RU 1**	**RU 2**	**RU 3**	**Total**
Fair values	$ 100	$ 40	$ 60	$ 200
Goodwill	30	10	20	60
Fair value of transferred operations	20	20	15	55
Relative fair value transferred	20%	50%	25%	

Analysis:

Because goodwill is required to be assigned based on relative fair value, assignment of goodwill to RU 4 is as follows:

	RU 1	**RU 2**	**RU 3**	**Total**
Goodwill (prior to reassignment)	$ 30	$ 10	$ 20	$ 60
Relative fair value transferred	20%	50%	25%	
Goodwill assigned to RU 4	6	5	5	16

The following represents the fair values as well as the beginning and ending goodwill balances for each reporting unit:

	RU 1	**RU 2**	**RU 3**	**RU 4**	**Total**
Fair values	$ 80	$ 20	$ 45	$ 55	$ 200
Goodwill (prior to reassignment)	$ 30	$ 10	$ 20	$ 0	$ 60
Goodwill assigned to RU 4	(6)	(5)	(5)	16	0
Goodwill (after reassignment)	$ 24	$ 5	$ 15	$ 16	$ 60

3.13 Goodwill impairment testing by a subsidiary for standalone reporting

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-47

Subsidiary goodwill might arise from any of the following:

a. Acquisitions that a subsidiary made prior to its being acquired by the parent

b. Acquisitions that a subsidiary made subsequent to its being acquired by the parent

c. Goodwill arising from the business combination in which a subsidiary was acquired that the parent pushed down to the subsidiary's financial statements.

350-20-35-48

All goodwill recognized by a public or nonpublic subsidiary (subsidiary goodwill) in its separate financial statements that are prepared in accordance with generally accepted accounting principles (GAAP) shall be accounted for in accordance with this Subtopic. Subsidiary goodwill shall be tested for impairment at the subsidiary level using the subsidiary's reporting units. If a goodwill impairment loss is recognized at the subsidiary level, goodwill of the reporting unit or units (at the higher consolidated level) in which the subsidiary's reporting unit with impaired goodwill resides must be tested for impairment if the event that gave rise to the loss at the subsidiary level would more likely than not reduce the fair value of the reporting unit (at the higher consolidated level) below its carrying amount (see paragraph 350-20-35-3C(f)). Only if goodwill of that higher-level reporting unit is impaired would a goodwill impairment loss be recognized at the consolidated level.

350-20-35-49

If testing at the consolidated level leads to an impairment loss, that loss shall be recognized at that level separately from the subsidiary's loss.

ASC 350-20 requires that goodwill reported in separate US GAAP financial statements issued by a subsidiary be tested for impairment by the subsidiary. That is, the subsidiary tests all goodwill on its books as if the subsidiary was a standalone entity in accordance with the provisions of ASC 350-20. This requirement applies to both public and non-public subsidiaries issuing separate US GAAP financial statements. Goodwill at a subsidiary can arise from acquisitions made prior to the company becoming a subsidiary of the parent, from applying pushdown accounting when the parent acquired the subsidiary and from acquisitions made after the company became a subsidiary of the parent.

If the subsidiary is required to recognize a goodwill impairment in its standalone financial statements, that impairment is not recognized in the parent company's financial statements (i.e., the impairment is not "pushed up" to the higher level of consolidation). However, the parent company should consider whether a goodwill impairment loss recognized at the subsidiary level indicates that the goodwill of the reporting unit or units in which the subsidiary resides should be tested. That is, if the impairment of goodwill at the subsidiary level indicates that it is more likely than not that the fair value of the affected reporting unit(s) is below their carrying amount, the goodwill in that reporting unit(s) is tested for impairment. If the goodwill impairment test at the consolidated level results in the recognition of an impairment loss, that loss is recognized in the consolidated financial statements and does not change the amount of goodwill impairment recognized in the subsidiary financial statements. The difference between the impairment loss recognized at the subsidiary level and an impairment loss reported by the consolidated parent, if any, will result in a recurring consolidating adjustment.

Similarly, a goodwill impairment loss recognized by a parent is not "pushed down" to the subsidiary. Rather, the subsidiary will apply ASC 350-20 in its own standalone financial statements. However, if the parent recognizes a goodwill impairment loss in the reporting unit(s) that includes a separate reporting subsidiary, that subsidiary should consider if a goodwill impairment indicator exists with respect to its goodwill.

3.14 Disposal of all or a portion of a reporting unit (updated June 2023)

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Derecognition

350-20-40-1

When a reporting unit is to be disposed of in its entirety, goodwill of that reporting unit shall be included in the carrying amount of the reporting unit in determining the gain or loss on disposal.

350-20-40-2

When a portion of a reporting unit that constitutes a business (see Section 805-10-55) or **nonprofit activity** is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal.

350-20-40-3

The amount of goodwill to be included in that carrying amount shall be based on the relative fair values of the business or nonprofit activity to be disposed of and the portion of the reporting unit that will be retained. For example, if a reporting unit with a fair value of $400 is selling a business or nonprofit activity for $100 and the fair value of the reporting unit excluding the business or nonprofit activity being sold is $300, 25 percent of the goodwill residing in the reporting unit would be included in the carrying amount of the business or nonprofit activity to be sold.

350-20-40-4

However, if the business or nonprofit activity to be disposed of was never integrated into the reporting unit after its acquisition and thus the benefits of the acquired goodwill were never realized by the rest of the reporting unit, the current carrying amount of that acquired goodwill shall be included in the carrying amount of the business or nonprofit activity to be disposed of.

350-20-40-5

That situation might occur when the acquired business or nonprofit activity is operated as a standalone entity or when the business or nonprofit activity is to be disposed of shortly after it is acquired.

350-20-40-6

Situations in which the acquired business or nonprofit activity is operated as a standalone entity are expected to be infrequent because some amount of integration generally occurs after an acquisition.

350-20-40-7

When only a portion of goodwill is allocated to a business or nonprofit activity to be disposed of, the goodwill remaining in the portion of the reporting unit to be retained shall be tested for impairment in accordance with paragraphs 350-20-35-3A through 35-13 using its adjusted carrying amount.

The goodwill of a reporting unit that is to be disposed of in its entirety is included as part of the carrying amount of the net assets to be disposed of in determining the gain or loss on disposal. When only a portion of a reporting unit is disposed of and that portion constitutes a business or nonprofit activity, some of the goodwill of the reporting unit should be assigned to the portion of the reporting unit being disposed of. No goodwill should be assigned to a portion of a reporting unit being disposed of if it does not meet the definition of a business or nonprofit activity. Section 2.1.3 of our FRD, ***Business combinations***, provides guidance for determining whether a group of assets constitutes a business under ASC 805.

When a portion of a reporting unit is disposed of and that portion constitutes a business or nonprofit activity, the assignment of goodwill is based on the relative fair values of the portion of the reporting unit being disposed of and the portion of the reporting unit remaining. That is, the entity has to determine the fair value of both the business or nonprofit activity being disposed of and the business (or businesses) or nonprofit activity in the reporting unit that will be retained. For example, if the fair value of the entire reporting unit is $1,000, the fair value of the portion of the reporting unit being disposed of is $300 and the fair value of the portion of the reporting unit being retained is $700, then 30% of the goodwill in the reporting unit would be included in the carrying amount of the business or nonprofit activity to be disposed of. When only a portion of a reporting unit is disposed of, the goodwill of the remaining reporting unit is tested for impairment, even if the disposition occurs between annual impairment test dates.

In this situation, the entity would need to assign the goodwill once the held-for-sale criteria are met (i.e., before disposal) to determine the appropriate amount of goodwill to include in the carrying value of the disposal group. As previously discussed, the initial allocation of goodwill to the disposal group would be based on the relative fair values of the portion of the reporting unit being disposed of and the portion of the reporting unit remaining.

When the disposition will occur in a subsequent reporting period, a question arises about whether an entity must reassess the allocation of goodwill to the disposal group at each reporting date and the date on which the disposal occurs. If the entity reorganizes its reporting structure in connection with the planned disposition and the disposal group represents a new reporting unit, no reassessment would be performed in subsequent reporting periods (see section 3.12 for further discussion of a reorganization of a company's reporting structure, including impairment considerations). However, when the disposition will occur in a subsequent reporting period and the entity concludes that the disposal group does not represent a new reporting unit, the entity should monitor the allocation of goodwill to the disposal group at each reporting date and the date on which the disposal occurs. That is, the entity may need to reallocate goodwill if there are significant changes in the relative fair values of the business or nonprofit activity to be disposed of and the reporting unit to be retained. Refer to section 4.1.3.1 in our FRD, ***Impairment or disposal of long-lived assets***, for further discussion on allocating goodwill to a disposal group.

This relative fair value approach is *not* used when the business or nonprofit activity to be disposed of was never integrated into the reporting unit after its acquisition (e.g., a business or nonprofit activity operated as a standalone entity or a business or nonprofit activity that is to be disposed of shortly after acquisition). In that case, the current carrying amount of the acquired goodwill should be included in the carrying amount of the business or nonprofit activity to be disposed of because the rest of the reporting unit never realized the benefits of the acquired goodwill. However, situations in which the acquired business or nonprofit activity is operated as a standalone entity would be infrequent because some amount of integration generally occurs after an acquisition.

If a business, nonprofit activity or reporting unit is disposed of that includes the net assets and operations of a prior acquisition but a portion of the synergistic goodwill arising from that acquisition was assigned to a reporting unit(s) that was not disposed of, we believe the entity should consider whether the disposition is a goodwill impairment indicator for the reporting unit(s) to which that synergistic goodwill was assigned, since the benefit that gave rise to that goodwill has been disposed of.

3.14.1 Change in parent's ownership interest results in loss of control

Under ASC 810-10, when a company that has a controlling financial interest in a business ceases to have a controlling financial interest either through a sale of its interest or other means described in that guidance, the company derecognizes the assets and liabilities of the company, including goodwill. The carrying amount of the net assets of the company being derecognized, including goodwill, is used in computing the gain or loss. The goodwill derecognized is no longer assigned to a reporting unit for purposes of impairment testing.

3.14.2 Assigning goodwill to a business transferred in a common control transaction

Often, an entity will transfer a business to another entity (receiving entity) in a common control transaction. If the transferred business is part of a larger reporting unit at the consolidated entity level and the parent has not previously pushed down the goodwill to the transferred business, questions arise in practice regarding the amount of goodwill that should be assigned to the transferred business by the transferring entity.

Depending on the facts and circumstances, we believe the following two options may be used by the transferring entity to assign goodwill to the transferred business for purposes of determining the carrying amount of the business being disposed of:

- The goodwill of the reporting unit can be assigned to the transferred business based on the relative fair values of the retained portion of the reporting unit and the transferred business on the date of transfer.
- The historical cost approach in ASC 805-50-30-5 can be used to identify the goodwill value assigned to the transferred business in the original acquisition.

In accordance with ASC 350-20, the transferring entity is required to test the remaining goodwill for impairment.

Regardless of the option used by the transferring entity to assign goodwill to the transferred business, the receiving entity in the common control transaction will record the transferred goodwill at the ultimate parent's historical cost in accordance with ASC 805-50-30-5. This may result in a difference between the goodwill assigned to the transferred business by the transferring entity and the goodwill recorded by the receiving entity.

Companies should determine the appropriate assignment method based on the specific facts and circumstances.

Although the balance of goodwill would not change at the ultimate parent entity on a consolidated basis, the ultimate parent entity would need to consider whether there has been a change in the composition of its reporting units as a result of the reorganization transaction. See guidance in section 3.12 as it relates to the approach followed when reassigning goodwill to reporting units following a reorganization.

3.14.3 Assignment of goodwill in a spin-off

3.14.3.1 Accounting by parent

When an entity spins off a reporting unit(s) or a component(s) of a reporting unit that constitutes a business as defined under ASC 805, goodwill of the reporting unit should be assigned to the business being spun off. That is, any goodwill assigned to the business being spun off would be derecognized from the parent's balance sheet. Goodwill is assigned to the business being spun off using the relative fair value approach discussed in section 3.14.

3.14.3.2 Accounting by spinnee

Goodwill recognized in the spinnee's balance sheet may differ from the amount assigned by the parent based on the relative assignment process. While the parent's accounting follows the relative fair value approach, we believe a "historical goodwill concept" generally would be applied in the standalone financial statements of the spinnee. Under this concept, any acquisition-specific goodwill related to a previous acquisition of an entity that would be included in the spin-off would be presented in the standalone financial statements of the business being spun off. The standalone entity would be required to identify its reporting units and perform a goodwill impairment test for all prior periods. The goodwill impairment test at the standalone level may yield an impairment charge that was not required to be recognized at the parent level.

Illustration 3-19: Assignment of goodwill in a spin-off

On 1 January 20X8, Company A acquires Company B for consideration transferred of $200 million. The fair value of the identifiable net assets acquired is $160 million and goodwill is $40 million. Company B will be placed in reporting unit RU 3. RU 3 also includes the net assets ($100 million) and goodwill ($20 million) of Company C, which was acquired by Company A on 1 January 20X6. As part of the Company B acquisition, Company A's two other reporting units (RU 1 and RU 2) are expected to benefit from the synergies of the combination. As such, Company A assigns goodwill of $30 million to RU 3, $6 million to RU 1 and $4 million to RU 2. Assume that prior to the acquisition, RU 1 and RU 2 had no goodwill recorded. In addition, none of the acquired assets and assumed liabilities was assigned to RU 1 or RU 2.

(in millions)	RU 1	RU 2	RU 3	Total
Net assets (excluding goodwill)	$ 60	$ 50	$ 260[1]	$ 370
Goodwill	6	4	50[2]	60
Total net assets	$ 66	$ 54	$ 310	$ 430

On 1 January 20X1, Company A decides to spin off Company B. As of 1 January 20X1, the fair value of RU 3 was $350 million ($245 million related to Company B and $105 million related to Company C).

Analysis

Accounting by parent (Company A)

In determining the amount of goodwill to derecognize, Company A should use the relative fair value approach. As such, Company A should derecognize goodwill of $35 million [($245 million/$350 million) x $50 million] associated with the spin-off of Company B. Note that none of the goodwill assigned to RU 1 and RU 2 is considered in determining the amount of goodwill to derecognize. The remaining goodwill balance in RU 3 should be tested for impairment in accordance with ASC 350-20-40-7.

Accounting by spinnee (Company B)

The standalone financial statements of the spinnee (Company B) would include goodwill of $40 million. Because Company B has to account for the goodwill using the historical goodwill concept, the $40 million acquisition-specific goodwill related to Company A's acquisition of Company B on 1 January 20X8 would be presented in the standalone financial statements of Company B.

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[1] Company B's net assets (excluding goodwill) of $160 million plus Company C's net assets (excluding goodwill) of $100 million.

[2] Company B's goodwill of $30 million ($40 million less $10 million assigned to RU 1 and RU 2) plus Company C's goodwill of $20 million.

3.15 Goodwill impairment testing when a noncontrolling interest exists

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-57A

If a reporting unit is less than wholly owned, the fair value of the reporting unit as a whole shall be determined in accordance with paragraphs 350-20-35-22 through 35-24, including any portion attributed to the noncontrolling interest. Any impairment loss measured in the goodwill impairment test shall be attributed to the parent and the **noncontrolling interest** on a rational basis. If the reporting unit includes only goodwill attributable to the parent, the goodwill impairment loss would be attributed entirely to the parent. However, if the reporting unit includes goodwill attributable to both the parent and the noncontrolling interest, the goodwill impairment loss shall be attributed to both the parent and the noncontrolling interest.

350-20-35-57B

If all or a portion of a less-than-wholly-owned reporting unit is disposed of, the gain or loss on disposal shall be attributed to the parent and the noncontrolling interest.

Under ASC 805, when a company initially acquires a controlling, but less than 100%, interest in another company, the acquiring company recognizes the assets acquired, liabilities assumed and any noncontrolling interest at fair value (with limited exception) and recognizes goodwill to the extent that the consideration transferred exceeds amounts assigned to the net identifiable assets acquired.

If a reporting unit is less than wholly owned, the fair value of the reporting unit as a whole is determined in accordance with ASC 350-20-35-22 through 35-24, including any portion attributed to the noncontrolling interest. Any goodwill impairment that results from applying the quantitative impairment test is attributed to the controlling and noncontrolling interests on a rational basis.

While the allocation of earnings to the controlling and noncontrolling interests often will be as straightforward as multiplying earnings by the relative ownership percentages, that approach will not be appropriate for allocating goodwill impairment. Particular care must be taken when a premium is paid to obtain control of an entity. And, as a result, the controlling and noncontrolling interests' bases in acquired goodwill may not be proportional to their ownership interests because the premium may not be allocated proportionately to the controlling and noncontrolling interests. Refer to section 4.6.2 of our FRD, ***Business combinations***, for additional discussion on attribution of a premium between the controlling and noncontrolling interests.

The following is an example of allocating a goodwill impairment charge between a controlling and noncontrolling interest when the control premium is determined to relate only to the controlling interest:

Illustration 3-20: Allocation of a goodwill impairment charge to the noncontrolling interest

XYZ Corp acquires 90% of the equity interest in ABC Corp for $400 million. XYZ Corp determines the fair value of the noncontrolling interest of ABC Corp is $40 million. The fair value of the identifiable net assets determined under ASC 805 is $300 million. XYZ Corp determined that ABC Corp should be in a new reporting unit because ABC Corp is not economically similar to any of its other reporting units. On the acquisition-date, the following was determined:

	(in millions)
Fair value of consideration transferred	$400
Fair value of noncontrolling interest	40(1)
Total	440
Fair value of identifiable net assets	(300)
Goodwill recognized	140
Goodwill attributable to controlling interest	130(2)
Goodwill attributable to noncontrolling interest	10(3)

One year after the acquisition, a new company opened for business that directly competes with the newly acquired reporting unit of XYZ Corp. Due to this new competition, revenues of the newly formed reporting unit declined. As a result, the fair value of the reporting unit falls to $380 million. For this example, assume there were no indicators of impairment evident prior to XYZ Corp's annual assessment and no change in the fair value of the identifiable net assets. In addition, no other impairment under ASC 360-10 is required to be recognized. The effects of taxes have been ignored.

Quantitative impairment test

	(in millions)
Fair value of reporting unit	$380
Carrying amount of reporting unit	440
Impairment loss	(60)
Goodwill impairment loss attributable to the controlling interest	$ 56[4]
Goodwill impairment loss attributable to the noncontrolling interest	$ 4[5]

[1] The fair value of the noncontrolling interest is not proportionate to its ownership interest because the noncontrolling interest is not expected to share ratably in all of the benefits expected to be generated by XYZ Corp.

[2] The goodwill of $130 million attributable to the controlling interest is calculated as follows: [($400 million) − (90% x $300 million)].

[3] The goodwill of $10 million attributable to the noncontrolling interest is calculated as follows: [($40 million) − (10% x $300 million)].

[4] The impairment loss is attributed based on the relative interest of the goodwill on the acquisition date. The goodwill impairment loss of $56 million attributable to the controlling interest is calculated as follows: [($130 million/$140 million) x $60 million].

[5] The impairment loss is attributed based on the relative interest of the goodwill on the acquisition date. The goodwill impairment loss of $4 million attributable to the noncontrolling interest is calculated as follows: [($10 million/$140 million) x $60 million].

3.15.1 Goodwill generated before the effective date of the guidance in ASC 810

If a reporting unit includes goodwill that is attributable only to a parent's basis in a partially owned subsidiary for which acquisition accounting was completed pursuant to Statement 141, any goodwill impairment charge (whether recognized before or after the provisions of ASC 810 are adopted) would be attributed entirely to the parent.

Because a business combination achieved in stages and accounted for under Statement 141 (and Accounting Principles Board (APB) 16) followed step acquisition accounting (that is, the noncontrolling interest was not initially measured at fair value), it is inappropriate to determine the noncontrolling interest's basis in any goodwill recognized using its relative ownership in the subsidiary. Given the prohibition on retroactively applying ASC 805, the goodwill recognized by the controlling interest should continue to be respected, even after the provisions of ASC 805 and ASC 810 are adopted. This is because the noncontrolling interest does not have a basis in the goodwill arising from acquisitions accounted for under Statement 141 or APB 16, if the goodwill becomes impaired after the provisions of ASC 810 are adopted, the entire impairment charge would be allocated to the controlling interest.

3.15.2 Reallocation of goodwill upon changes in a parent's ownership interest

ASC 810 requires that changes in a parent's ownership interest in a subsidiary while the parent retains its controlling financial interest are to be accounted for as equity transactions. Neither gains nor losses on those transactions are recognized in net income, and the carrying amounts of the subsidiary's assets (including goodwill) and liabilities should not be changed. In accounting for such transactions under ASC 810, the carrying amount of the noncontrolling interest should be increased/decreased to reflect the change in the noncontrolling interest's ownership in the subsidiary's net assets (that is, the amount attributed to the additional noncontrolling interests should reflect its proportionate ownership percentage in the subsidiary's net assets acquired).

For impairment testing purposes, we believe goodwill should be reallocated between the controlling and noncontrolling interests based on the changes in ownership interests. See below for an illustration of this concept:

Illustration 3-21: Reallocation of goodwill upon a change in parent's ownership interest

On 1 January 20X3, Parent pays $920 in cash to acquire 80% of Subsidiary, which owns net assets with a fair value of $1,000. The fair value of the 20% noncontrolling interest on the acquisition date is $220. The business combination is accounted for under ASC 805 and $140 [($920 + $220) — $1,000] of goodwill is recognized ($120 [$920 — (80% x $1,000)] attributable to Parent and $20 [$220 — (20% x $1,000)] attributable to the noncontrolling interest, due to the existence of a control premium that does not benefit the controlling and noncontrolling shareholders proportionately).

The table below summarizes Parent's and the noncontrolling interest holders' share of the net assets and goodwill of Subsidiary as of the acquisition date:

	Share of net assets	Share of goodwill	Total
Parent	$ 800	$ 120	$ 920
Noncontrolling interest	200	20	220
Total	$1,000	$ 140	$1,140

On 30 June 20X3, Parent acquires an additional 5% interest in Subsidiary for $60 cash. For illustrative purposes, the total fair value of the net assets of Subsidiary as of 30 June 20X3 is still $1,000.

Analysis

With the acquisition of an additional 5% interest, Parent's ownership interest increased to 85%. Parent acquired 25% (5% / 20%) of the noncontrolling interest balance at 30 June 20X3, or $55 ($220 x 25%). This would result in goodwill of $5 (25% x $20) being reallocated from the noncontrolling interest to Parent.

Parent would record the following journal entry to reflect its acquisition of the additional 5% interest:

Noncontrolling interest ($220 x 25%)	$ 55	
Equity of Parent	5	
Cash		$ 60

The table below summarizes Parent's and the noncontrolling interest holders' share of the net assets and goodwill of Subsidiary after Parent's acquisition of the additional 5% interest:

	Share of net assets	Share of goodwill	Total
Parent	$ 850	$ 125	$ 975
Noncontrolling interest	150	15	165
Total	$ 1,000	$ 140	$ 1,140

The illustration above describes a scenario in which a parent increased its ownership interest in a subsidiary. If a parent decreases its ownership interest in a subsidiary (either by selling a portion of the subsidiary's shares it holds or causing the subsidiary to issue new shares), we believe the above methodology is also appropriate. Because ASC 350 does not specifically address this circumstance, there may be diversity in practice and as such other alternatives may also be acceptable.

3.16 Tax effects of goodwill impairments

See section 11.8 in our FRD, ***Income taxes***, for a discussion of the tax implications pertaining to the impairment of identifiable intangible assets and goodwill.

3.17 Goodwill related to equity method investments

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-58

The portion of the difference between the cost of an investment and the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill in accordance with paragraph 323-10-35-13 (equity method goodwill) shall not be amortized.

350-20-35-59

However, equity method goodwill shall not be reviewed for impairment in accordance with this Subtopic. Equity method investments shall continue to be reviewed for impairment in accordance with paragraph 323-10-35-32.

ASC 323-10-35-13 requires that an equity method investor account for the difference between its cost basis in the investee and the investor's interest in the underlying net book value of the investee as if the investee were a consolidated subsidiary. When an investee meets the definition of a business, any excess of the cost of the investment over the proportional fair value of the assets and liabilities of the investee is reflected in the "memo" accounts as goodwill, commonly referred to as "equity method goodwill."

The investor's unit of account for evaluating impairment associated with an equity method investment is the investment as a whole. Any equity method goodwill is not amortized and is not separately tested for impairment under the provisions of ASC 350. Refer to section 6.8 of our FRD, ***Equity method investments and joint ventures***, for a discussion of testing for other-than-temporary impairment of an equity method investment.

Goodwill on the investee's balance sheet is subject to the ASC 350-20 requirements in the investee's separate financial statements. An equity method investor recognizes its portion of an equity method investee's goodwill impairment charge, adjusted for any basis differences. Further, if an equity method investee recognizes a goodwill impairment loss, the investor should consider whether its carrying amount of the investee might be impaired. See sections 5.4.1 and 6.10.1 in our FRD, ***Equity method investments and joint ventures***, for further discussion about equity method goodwill and investor accounting for impairments recognized by the investee, respectively.

3.18 Goodwill resulting from a subsidiary's acquisition of an entity

A consolidated subsidiary that acquires another business in a business combination should reflect all of the goodwill resulting from the acquisition in its separate financial statements, regardless of the amount of goodwill that the parent assigns to the reporting unit in which the subsidiary resides.

Illustration 3-22: Goodwill resulting from an acquisition by a subsidiary

Assume the operations of Subsidiary A are included, in their entirety, in Reporting Unit 1 of the Parent. Subsidiary A acquires Target and the acquisition results in goodwill of $100 million. The Parent believes that synergies related to the acquisition will benefit both Reporting Unit 1 and Reporting Unit 2 and, therefore, assigns $80 million of the acquired goodwill to Reporting Unit 1 and $20 million to Reporting Unit 2.

Analysis

Subsidiary A should recognize $100 million of goodwill in its separate financial statements and assign that goodwill to its reporting units in accordance with ASC 350-20.

3.19 Deferred income taxes

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

350-20-35-61

Paragraph 805-740-25-3 through 25-4 states that deferred income taxes are not recognized for any portion of goodwill for which amortization is not deductible for income tax purposes. For guidance on recognition of deferred income taxes related to goodwill when amortization of goodwill is deductible for tax purposes, see paragraphs 805-740-25-6 through 25-9.

350-20-35-8B

If a reporting unit has tax deductible goodwill, recognizing a goodwill impairment loss may cause a change in deferred taxes that results in the carrying amount of the reporting unit immediately exceeding its fair value upon recognition of the loss. In those circumstances, the entity shall calculate the impairment loss and associated deferred tax effect in a manner similar to that used in a business combination in accordance with the guidance in paragraphs 805-740-55-9 through 55-13. The total loss recognized shall not exceed the total amount of goodwill allocated to the reporting unit. See Example 2A in paragraphs 350-20-55-23A through 55-23C for an illustration of the calculation.

Implementation Guidance and Illustrations

350-20-55-23A

Goodwill is deductible for tax purposes for some business combinations in certain jurisdictions. In those jurisdictions, a deferred tax asset or deferred tax liability is recorded upon acquisition on the basis of the difference between the book basis and the tax basis of goodwill. When goodwill of a reporting unit is tax deductible, the impairment of goodwill creates a cycle of impairment because the decrease in the book value of goodwill increases the deferred tax asset (or decreases the deferred tax liability) such that the carrying amount of the reporting unit increases. However, there is no corresponding increase in the fair value of the reporting unit and this could trigger another impairment test.

ASC 740 states that deferred taxes are not recognized for any portion of goodwill for which amortization is not deductible for tax purposes. However, deferred taxes are recognized for certain portions of goodwill that are deductible for tax purposes (ASC 805-740-25-8 and 25-9).

Goodwill amortization is deductible for tax purposes in certain jurisdictions. If that's the case, recognizing a goodwill impairment charge would increase a deferred tax asset or decrease a deferred tax liability. Either change would result in the carrying amount of the reporting unit immediately exceeding its fair value, which would require another impairment charge. To address this issue, the guidance requires an entity

to calculate the impairment charge and the deferred tax effect using a simultaneous equations method that is similar to how an entity measures goodwill and related deferred tax assets in a business combination. See our FRD, ***Income taxes***, for further information on the accounting for tax-deductible goodwill.

The following example based on ASC 350-20-55-23A through 23D illustrates the use of the simultaneous equations method to account for the increase in the carrying amount from the deferred tax benefit when tax deductible goodwill is present.

Illustration 3-23: Impairment test when goodwill is tax deductible

Beta Entity has goodwill from an acquisition in a reporting unit. All of the goodwill allocated to the reporting unit is tax deductible. The reporting unit has a book value of goodwill of $400, deferred tax assets of $200 relating to the tax-deductible goodwill, and book value of other net assets of $400. The reporting unit is subject to a 25% income tax rate. Beta Entity estimated the fair value of the reporting unit to be $900.

	Carrying amount	Fair value	Preliminary impairment	Preliminary deferred tax adjustment	Carrying amount after preliminary impairment
Goodwill	$ 400	$ -	$ (100)	$ -	$ 300
Deferred taxes	200	-	-	25	225
Other net assets	400	-	-	-	400
Total	$ 1,000	$ 900	$ (100)	$ 25	$ 925

Analysis

The carrying amount of the reporting unit immediately after the impairment charge exceeds its fair value by the amount of the increase in the deferred tax asset calculated as 25% of the impairment charge. To address the circular nature of the carrying amount exceeding the fair value, Beta Entity would apply the simultaneous equations method to the reporting unit, as follows:

Simultaneous equations method: [tax rate/(1 − tax rate)] × (preliminary temporary difference) = deferred tax asset

Deferred tax asset = 25%/(1 − 25%) × $100 = $33

	Carrying amount	Fair value	Preliminary impairment	Adjustment for equation	Carrying amount after impairment
Goodwill	$ 400	$ -	$ (100)	$ (33)	$ 267
Deferred taxes	200	-	-	33	233
Other net assets	400	-	-	-	400
Total	$ 1,000	$ 900	$ (100)	$ 0	$ 900

Beta Entity would report a $133 goodwill impairment charge partially offset by a $33 deferred tax benefit recognized in the income tax line. If the impairment charge calculated using the equation exceeds the total goodwill allocated to a reporting unit, the total impairment charge would be limited to the goodwill amount.

4 Financial statement presentation and disclosure requirements

4.1 Financial statement presentation

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Other Presentation Matters

350-20-45-1

The aggregate amount of **goodwill** shall be presented as a separate line item in the statement of financial position.

350-20-45-2

The aggregate amount of goodwill impairment losses shall be presented as a separate line item in the income statement before the subtotal income from continuing operations (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation.

350-20-45-3

A goodwill impairment loss associated with a discontinued operation shall be included (on a net-of-tax basis) within the results of discontinued operations. For guidance on reporting discontinued operations, see Subtopic 205-20.

Presentation of Financial Statements — Discontinued Operations

Relationships

205-20-60-4

For guidance on reporting a goodwill impairment loss associated with a discontinued operation, see paragraph 350-20-45-3.

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Other Presentation Matters

350-30-45-1

At a minimum, all **intangible assets** shall be aggregated and presented as a separate line item in the statement of financial position. However, that requirement does not preclude presentation of individual intangible assets or classes of intangible assets as separate line items.

350-30-45-2

The amortization expense and impairment losses for intangible assets shall be presented in income statement line items within continuing operations as deemed appropriate for each entity.

350-30-45-3

Paragraphs 350-30-35-9 through 35-12 and 350-30-35-15 through 35-17 require that an intangible asset be tested for impairment when it is determined that the asset shall no longer be amortized or shall begin to be amortized due to a reassessment of its remaining **useful life**. An impairment loss resulting from that impairment test shall not be recognized as a change in accounting principle.

4.1.1 Balance sheet presentation

ASC 350 requires that the aggregate amount of goodwill be presented as a separate line item in the balance sheet. In deliberating Statement 142, the FASB concluded that goodwill was sufficiently different from other assets to require that it be displayed separately on the balance sheet.

ASC 350 also requires that, at a minimum, the aggregate balance of intangible assets (excluding goodwill) be shown as a separate line item on the balance sheet. This does not preclude the presentation of individual intangible assets or classes of intangible assets as separate line items. In addition, the SEC's Regulation S-X, Rule 5-02 requires separate presentation in the balance sheet of each class of intangible asset that is in excess of five percent of total assets.

Companies should continue to appropriately classify intangible assets as either current or non-current as required by ASC 210. We believe that there will be limited circumstances in which an intangible asset will be classified as current (e.g., a production backlog that will be completed and delivered within one year). Additionally, we believe that the practice of reclassifying the amount of the coming year's amortization of an intangible asset to current assets is inappropriate.

4.1.2 Income statement presentation

Goodwill impairment losses should be presented as a separate line item in the income statement before the subtotal "income from continuing operations" (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation. A goodwill impairment loss associated with a discontinued operation should be included within the results of discontinued operations. Any portion of goodwill assigned to net assets that represent a business disposed of (as discussed in section 3.14) should be recognized as part of the gain or loss on disposal of those assets and not with other goodwill impairment losses.

The amortization expense related to intangible assets being amortized and any impairment loss related to intangible assets should be presented within continuing operations in the income statement line items deemed appropriate for the reporting company. Amortization expense is not required to, but may be, separately reported on the face of the income statement. Alternatively, amortization expense may be included in the income statement line item to which it relates. If the underlying intangible asset is used in the operations of the company, we believe that the related amortization expense should be included in the determination of operating income. If not reported separately in the income statement, total amortization expense for the period is required to be disclosed in the notes to the financial statements.

4.1.3 Additional presentation considerations for private companies and not-for-profit entities

Private companies and NFPs that have adopted the goodwill amortization accounting alternative have different presentation requirements than those discussed above. Refer to section A.2.4.2 for those requirements.

4.2 General disclosure requirements

4.2.1 Goodwill (updated June 2024)

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Disclosure

350-20-50-1

The changes in the carrying amount of **goodwill** during the period shall be disclosed, showing separately (see Example 3 [paragraph 350-20-55-24]):

a. The gross amount and accumulated impairment losses at the beginning of the period

b. Additional goodwill recognized during the period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with paragraph 360-10-45-9

c. Adjustments resulting from the subsequent recognition of deferred tax assets during the period in accordance with paragraphs 805-740-25-2 through 25-4 and 805-740-45-2

d. Goodwill included in a disposal group classified as held for sale in accordance with paragraph 360-10-45-9 and goodwill derecognized during the period without having previously been reported in a disposal group classified as held for sale

e. Impairment losses recognized during the period in accordance with this Subtopic

f. Net exchange differences arising during the period in accordance with Topic 830

g. Any other changes in the carrying amounts during the period

h. The gross amount and accumulated impairment losses at the end of the period.

Entities that report segment information in accordance with Topic 280 shall provide the above information about goodwill in total and for each reportable segment and shall disclose any significant changes in the allocation of goodwill by reportable segment. If any portion of goodwill has not yet been allocated to a reporting unit at the date the financial statements are issued, that unallocated amount and the reasons for not allocating that amount shall be disclosed.

350-20-50-1A

Entities that have one or more reporting units with zero or negative carrying amounts of net assets shall disclose those reporting units with allocated goodwill and the amount of goodwill allocated to each and in which reportable segment the reporting unit is included.

A reconciliation of the carrying amount of goodwill at the beginning of the period to the carrying amount at the end of the period is required. This reconciliation should include the beginning gross goodwill amount (which should represent the gross goodwill acquired in a previous business combination) and any accumulated impairment losses at the beginning of the period. This reconciliation is required for annual period financial statements. However, at the AICPA SEC Regulations Committee joint meeting with the SEC staff on 11 June 2003, the SEC staff clarified that they generally do not believe that entities are required to provide the reconciliation in paragraph 45 of Statement 142 (now codified as ASC 350-20-50-1) in interim filings. This is because interim filings include financial statements that are condensed rather than full financial statements, which do not generally require the same level of footnote disclosure as full financial statements.

An entity that has one or more reporting units with zero or negative carrying amounts of net assets must disclose those reporting units with allocated goodwill, the amount of goodwill allocated to each and the reportable segment in which the reporting unit is included. When an entity has one or more reporting units with a material amount of goodwill and such reporting units have a zero or negative carrying amount, we believe it would be rare for that entity to conclude it is not required to disclose that information on the basis of materiality. This is further supported by paragraph BC45 of ASU 2017-04, in which the Board explains that these required disclosures provide useful information to users of financial statements because these reporting units may not record an impairment charge under a one-step impairment test.

4.2.1.1 Additional disclosure considerations for private companies and not-for-profit entities

Private companies and NFPs that have adopted the goodwill amortization accounting alternative have different disclosure requirements than those discussed above. Refer to section A.2.4.3 for those requirements.

Private companies and NFPs that have adopted the goodwill triggering event evaluation accounting alternative have additional disclosure requirements beyond those discussed above. Refer to section A.3.3 for those requirements.

4.2.2 General intangible assets other than goodwill

4.2.2.1 Disclosures in period of acquisition

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Disclosure

350-30-50-1

For **intangible assets** acquired either individually or as part of a group of assets (in either an asset acquisition, a business combination, or an acquisition by a not-for-profit entity), all of the following information shall be disclosed in the notes to financial statements in the period of acquisition:

a. For intangible assets subject to amortization, all of the following:

   1. The total amount assigned and the amount assigned to any major **intangible asset class**

   2. The amount of any significant **residual value**, in total and by major intangible asset class

   3. The weighted-average amortization period, in total and by major intangible asset class.

b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class.

c. The amount of research and development assets acquired in a transaction other than a business combination or an acquisition by a not-for-profit entity and written off in the period and the line item in the income statement in which the amounts written off are aggregated.

d. For intangible assets with renewal or extension terms, the weighted-average period before the next renewal or extension (both explicit and implicit), by major intangible asset class.

This information also shall be disclosed separately for each material business combination or acquisition by a not-for-profit entity or in the aggregate for individually immaterial business combinations or acquisitions by a not-for-profit entity that are material collectively if the aggregate fair values of intangible assets acquired, other than goodwill, are significant.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-30-50-1

For **intangible assets** acquired either individually or as part of a group of assets (in asset acquisition, a business combination, acquisition by a not-for-profit entity, or a joint venture formation), all of the following information shall be disclosed in the notes to financial statements in the period of acquisition:

a. For intangible assets subject to amortization, all of the following:
   1. The total amount assigned and the amount assigned to any major **intangible asset class**
   2. The amount of any significant **residual value**, in total and by major intangible asset class
   3. The weighted-average amortization period, in total and by major intangible asset class.

b. For intangible assets not subject to amortization, the total amount assigned and the amount assigned to any major intangible asset class.

c. The amount of research and development assets acquired in a transaction other than a business combination, an acquisition by a not-for-profit entity, or a joint venture formation and written off in the period and the line item in the income statement in which the amounts written off are aggregated.

d. For intangible assets with renewal or extension terms, the weighted-average period before the next renewal or extension (both explicit and implicit), by major intangible asset class.

This information also shall be disclosed separately for each material business combination or acquisition by a not-for-profit entity or in the aggregate for individually immaterial business combinations or acquisitions by a not-for-profit entity that are material collectively if the aggregate fair values of intangible assets acquired, other than goodwill, are significant.

4.2.2.2 Recurring disclosures when statement of financial position is presented

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Disclosure

350-30-50-2

The following information shall be disclosed in the financial statements or the notes to financial statements for each period for which a statement of financial position is presented:

a. For intangible assets subject to amortization, all of the following:
   1. The gross carrying amount and accumulated amortization, in total and by major intangible asset class
   2. The aggregate amortization expense for the period
   3. The estimated aggregate amortization expense for each of the five succeeding fiscal years.

b. For intangible assets not subject to amortization, the total carrying amount and the carrying amount for each major intangible asset class

c. The entity's accounting policy on the treatment of costs incurred to renew or extend the term of a recognized intangible asset

d. For intangible assets that have been renewed or extended in the period for which a statement of financial position is presented, both of the following:

1. For entities that capitalize renewal or extension costs, the total amount of costs incurred in the period to renew or extend the term of a recognized intangible asset, by major intangible asset class
2. The weighted-average period before the next renewal or extension (both explicit and implicit), by major intangible asset class.

Example 13 (see paragraph 350-30-55-39) illustrates these disclosure requirements.

350-30-50-4

For a recognized intangible asset, an entity shall disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent or ability (or both intent and ability) to renew or extend the arrangement.

4.3 Disclosures surrounding impairment

4.3.1 Impairment of goodwill

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Disclosure

350-20-50-2

For each goodwill impairment loss recognized, all of the following information shall be disclosed in the notes to the financial statements that include the period in which the impairment loss is recognized:

a. A description of the facts and circumstances leading to the impairment

b. The amount of the impairment loss and the method of determining the fair value of the associated reporting unit (whether based on quoted market prices, prices of comparable businesses or nonprofit activities, a present value or other valuation technique, or a combination thereof)

c. Subparagraph superseded by Accounting Standards Update No. 2017-04.

350-20-50-3

The quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) are not required for fair value measurements related to the financial accounting and reporting for goodwill after its initial recognition in a business combination.

4.3.1.1 SEC observations on goodwill impairment analysis and disclosures (updated June 2023)

The SEC staff frequently asks for supplemental information and disclosures in management's discussion and analysis (MD&A) about a registrant's impairment analysis and the related critical accounting estimates, including:

- Details of the goodwill impairment policies and analysis for each reporting unit, including when the quantitative impairment test is performed, whether the optional qualitative assessment was performed for any reporting units, how reporting units are identified and how assets, liabilities and goodwill are assigned to reporting units

- Sensitivity analyses regarding material assumptions used in testing goodwill for impairment, including qualitative and quantitative factors, and how changes in those assumptions might affect the outcome of the goodwill impairment test
- Details of the registrant's analysis of events that have occurred since the latest annual goodwill impairment assessment and whether those events are indicators of impairment that require an interim test
- The reconciliation of the aggregate fair values of the reporting units to the registrant's market capitalization and justification of the implied control premium, including relevant transactions reviewed to support the control premium (see section 3.3.1) for further information on market capitalization reconciliations)
- The reasons for and the result of any goodwill impairment test, even if no impairment was recognized
- The type of events that could lead to a future goodwill impairment

Registrants should provide robust disclosures that satisfy the requirements of ASC 350-20-50-2 for each goodwill impairment loss recognized. When the SEC staff believes that the factors resulting in a goodwill impairment have not been satisfactorily disclosed, the SEC staff frequently requests additional information about the factors and circumstances leading to the impairment.

Even if no impairment is identified in a particular reporting period, the SEC staff expects registrants to provide comprehensive disclosures of their critical accounting estimates related to goodwill impairment testing in MD&A. The SEC staff frequently issues comments when these disclosure requirements are not met or the disclosures are not clear and meaningful. At a minimum, the disclosures should include:

- The annual assessment date and a description of when an interim test is required (i.e., whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of the reporting unit)
- A description of how the estimated fair value of a reporting unit is determined and the significant assumptions used in that analysis

A reporting unit may be "at risk" of failing the quantitative impairment test if it had a fair value that is not substantially in excess of its carrying amount at the assessment date. While no bright lines exist to determine whether the fair value was not substantially in excess of the carrying amount and, thus, a reporting unit's goodwill is considered "at risk," the SEC staff has stated that it expects a registrant to apply judgment when making those disclosures. Although detailed information such as the fair value or carrying amount of reporting units is not required by US GAAP, the SEC staff believes that meaningful information about the potential for a future goodwill impairment should be included in MD&A. The SEC staff frequently asks registrants to discuss in MD&A the possibility of a future impairment of goodwill when potential indicators of impairment are observed.[22] To assist registrants in meeting this disclosure obligation, the SEC staff refers to the disclosure considerations in the Division of Corporation Finance's Financial Reporting Manual (FRM) Section 9510.3, which include:

- The percentage by which the fair value of each reporting unit exceeds its carrying amount at the date of the last impairment test
- The amount of goodwill assigned to the reporting unit
- A description of the methods and key assumptions that drive the fair value of the reporting unit, and how the key assumptions were determined

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[22] If a registrant does not have any reporting units that are at risk of failing the quantitative impairment test, that fact should be disclosed in MD&A.

- A discussion of uncertainties associated with the key assumptions, including specifics to the extent possible
- A discussion of any potential events or circumstances that could have a negative effect on the estimated fair value of the reporting unit

In addition, registrants should consider disclosing significant quantitative assumptions used in determining whether the fair value of the reporting unit is less than its carrying amount and the sensitivity of those assumptions. The SEC staff may challenge the timing of a goodwill impairment charge, particularly when the reasons for the charge also existed in prior periods. The SEC staff also may question whether adequate disclosure was made in previous filings when a goodwill impairment charge is recorded for a reporting unit that was not previously disclosed as being "at risk."

4.3.2 Impairment of intangible assets other than goodwill

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — General Intangibles Other than Goodwill

Disclosure

350-30-50-3

For each impairment loss recognized related to an intangible asset, all of the following information shall be disclosed in the notes to financial statements that include the period in which the impairment loss is recognized:

a. A description of the impaired intangible asset and the facts and circumstances leading to the impairment

b. The amount of the impairment loss and the method for determining fair value

c. The caption in the income statement or the statement of activities in which the impairment loss is aggregated

d. If applicable, the segment in which the impaired intangible asset is reported under Topic 280.

350-30-50-3A

A **nonpublic entity** is not required to disclose the quantitative information about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) that relate to the financial accounting and reporting for an indefinite-lived intangible asset after its initial recognition.

4.3.2.1 SEC observations on intangible asset impairment analysis and disclosures (updated June 2023)

The SEC staff has requested disclosures similar to those described in FRM Section 9510.3 with respect to other intangible assets when it believes a risk of impairment exists. The SEC staff has also asked registrants to disclose how other intangible assets are tested for impairment, including the valuation methods and significant assumptions used to determine the estimated fair values of the assets. As it has done with goodwill impairment, the SEC staff has challenged whether impairments of other intangible assets should have been recognized when the staff observes potential indicators of impairment.

When a goodwill impairment occurs, the SEC staff often requests an explanation of how the registrant considered the factors that led to that impairment in evaluating the need for impairment testing of other intangible assets.

A Accounting alternatives for subsequent accounting for goodwill

A.1 Overview and scope

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Overview and Background

General

350-20-05-4

The guidance in this Subtopic is presented in the following two Subsections:

a. General

b. Accounting Alternatives.

350-20-05-4A

Costs of developing, maintaining, or restoring internally generated goodwill should not be capitalized. For entities that do not elect the accounting alternative for amortizing goodwill included in the guidance in the Subsections outlined in paragraph 350-20-05-5A, goodwill that is recognized under the business combination guidance in Topic 805 and Subtopic 958-805 should not be amortized. Instead, it should be tested for impairment at least annually in accordance with paragraphs 350-20-35-28 through 35-32. If the accounting alternative for a goodwill impairment triggering event evaluation is elected, a goodwill impairment triggering event shall be evaluated in accordance with paragraphs 350-20-35-83 through 35-86.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-20-05-4A

Costs of developing, maintaining, or restoring internally generated goodwill should not be capitalized. For entities that do not elect the accounting alternative for amortizing goodwill included in the guidance in the Subsections outlined in paragraph 350-20-05-5A, goodwill that is recognized under the business combination guidance in Topic 805 and Subtopic 958-805 and goodwill that is recognized under the joint venture formation guidance in Subtopic 805-60 should not be amortized. Instead, it should be tested for impairment at least annually in accordance with paragraphs 350-20-35-28 through 35-32. If the accounting alternative for a goodwill impairment triggering event evaluation is elected, a goodwill impairment triggering event shall be evaluated in accordance with paragraphs 350-20-35-83 through 35-86.

Accounting Alternatives

350-20-05-5

The Accounting Alternatives Subsections of this Subtopic provide guidance for the following:

a. An entity within the scope of paragraph 350-20-15-4 that elects the accounting alternative for amortizing goodwill. If elected, this accounting alternative allows an eligible entity to amortize goodwill and test that goodwill for impairment upon a triggering event.

b. An entity within the scope of paragraph 350-20-15-4A that elects the accounting alternative for a goodwill impairment triggering event evaluation. If elected, this accounting alternative allows an eligible entity to evaluate goodwill impairment triggering events only as of the end of each reporting period.

350-20-05-5A

The accounting alternatives guidance can be found in the following paragraphs:

a. Scope and Scope Exceptions—paragraphs 350-20-15-4 through 15-6

b. Subsequent Measurement—paragraphs 350-20-35-62 through 35-86

c. Derecognition—paragraphs 350-20-40-8 through 40-9

d. Other Presentation Matters—paragraphs 350-20-45-4 through 45-7

e. Disclosure—paragraphs 350-20-50-3A through 50-7

f. Implementation Guidance and Illustrations—paragraphs 350-20-55-26 through 55-29.

350-20-05-6

An entity should continue to follow the applicable requirements in Topic 350 for other accounting and reporting matters related to goodwill that are not addressed in the Accounting Alternatives Subsections of this Subtopic.

Scope and Scope Exceptions

General

350-20-15-3A

Paragraphs 350-20-15-4 through 15-6, 350-20-35-62 through 35- 86, 350-20-40-8 through 40-9, 350-20-45-4 through 45-7, 350-20-50-3A through 50-7, 350-20-55-26 through 55-29, and 323-10-35-13 provide guidance for an entity electing the accounting alternatives in this Subtopic. See paragraphs 350-20-65-2 and 350-20-65-4 for transition guidance for private companies and not-for-profit entities on applying the accounting alternatives in Subtopic 350-20.

Accounting Alternatives

350-20-15-4

A **private company** or **not-for-profit entity** may make an accounting policy election to apply the accounting alternative for amortizing goodwill in this Subtopic to the following transactions or activities:

a. **Goodwill** that an entity recognizes in a business combination in accordance with Subtopic 805-30 or in an **acquisition by a not-for-profit entity** in accordance with Subtopic 958-805 after it has been initially recognized and measured

b. Amounts recognized as goodwill in applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures, and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852 on reorganizations.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-20-15-4

A **private company** or **not-for-profit entity** may make an accounting policy election to apply the accounting alternative for amortizing goodwill in this Subtopic. The guidance in the Accounting Alternatives Subsections of this Subtopic applies to the following transactions or activities:

a. **Goodwill** that an entity recognizes in a business combination in accordance with Subtopic 805-30, in an **acquisition by a not-for-profit entity** in accordance with Subtopic 958-805, or in a **joint venture** formation in accordance with Subtopic 805-60 after it has been initially recognized and measured

b. Amounts recognized as goodwill in applying the equity method of accounting in accordance with Topic 323 on investments—equity method and joint ventures, and to the excess reorganization value recognized by entities that adopt fresh-start reporting in accordance with Topic 852 on reorganizations.

350-20-15-4A

A private company or not-for-profit entity may make an accounting policy election to apply the accounting alternative for a goodwill impairment triggering event evaluation to goodwill subsequently accounted for in accordance with Subtopic 350-20.

350-20-15-5

An entity within the scope of paragraph 350-20-15-4 or paragraph 350-20-15-4A that elects the accounting alternative for amortizing goodwill or the accounting alternative for goodwill impairment triggering event evaluation shall apply all of the related subsequent measurement, derecognition, other presentation matters, and disclosure requirements upon election. An accounting alternative, once elected, shall be applied to existing goodwill and to all additions to goodwill recognized in future transactions within the scope of that accounting alternative.

350-20-15-6

An entity that elects either of the accounting alternatives in this Subtopic is not required to elect or precluded from electing the other alternative.

US GAAP allows private companies and NFPs to make two accounting policy elections (referred to as accounting alternatives) to simplify their subsequent accounting for goodwill. Unless specified, references to companies or entities throughout this appendix include private companies and NFPs.

The first accounting alternative allows private companies and NFPs (further discussed in section A.1.1) to amortize goodwill acquired in a business combination or in an acquisition by an NFP and to use a simplified one-step impairment test (referred to as the goodwill amortization accounting alternative). The application of the goodwill amortization accounting alternative is optional, meaning that eligible private companies[23] and NFPs[24] can continue to follow the guidance discussed in section 3.

Once elected, the goodwill amortization accounting alternative applies to all existing goodwill and any goodwill that is recognized (1) in a business combination under ASC 805, an acquisition by an NFP under ASC 958-805 or a joint venture formation under ASC 805-60, (2) as a result of applying the equity method of accounting under ASC 323 and (3) as a result of applying fresh-start accounting under ASC 852. For more information on the recognition and initial measurement of each of these transactions,

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[23] Refer to Appendix H for the definition of a private company from the ASC Master Glossary.

[24] Refer to Appendix H for the definition of a not-for-profit entity from the ASC Master Glossary.

see our FRDs, ***Business combinations***; ***Equity method investments and joint ventures***; and ***Bankruptcies, liquidations and quasi-reorganizations***, respectively. In addition, entities that elect the goodwill amortization accounting alternative must apply all related subsequent measurement, derecognition, presentation and disclosure requirements upon election.

The goodwill amortization accounting alternative is very different from PBE US GAAP. The table below summarizes some of the key differences between the goodwill amortization accounting alternative and PBE US GAAP, and also provides the section of this appendix in which the goodwill amortization accounting alternative is discussed. The table assumes the goodwill triggering event evaluation accounting alternative is not also elected.

Guidance	PBE US GAAP	Goodwill amortization accounting alternative	Section
Amortization	Prohibited	Amortized on a straight-line basis over a period of 10 years (or less)	A.2
Level of goodwill impairment test	Goodwill is required to be tested at the reporting unit level	Entities have the option of performing the impairment test at the entity level or the reporting unit level (accounting policy election)	A.2.2.1
Frequency of impairment test	Required at least annually, and more frequently if events and circumstances indicate that goodwill may be impaired	Required only when there is a triggering event indicating that the fair value of the entity (or reporting unit) may be below its carrying amount	A.2.2.2
Calculation of goodwill for impairment	**Optional qualitative assessment:** Evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount	**Optional qualitative assessment**: Evaluate whether it is more likely than not that the fair value of the entity (or a reporting unit) is less than its carrying amount	A.2.2.3
	If applicable, one-step goodwill impairment test is performed at the reporting unit level; the reporting unit's carrying amount is compared to its fair value	If applicable, one-step goodwill impairment test is performed at the entity level or the reporting unit level; the entity's (or reporting unit's) carrying amount, including goodwill, is compared to its fair value Any impairment loss (amount by which the entity's or reporting unit's carrying amount, including goodwill, exceeds its fair value) is limited to the carrying amount of goodwill (i.e., goodwill cannot be reduced below zero)	A.2.2.4
Allocation of goodwill impairment loss	No requirement to allocate a goodwill impairment loss to a lower unit of account within a reporting unit	Any goodwill impairment loss is allocated to each amortizable unit of goodwill of the entity (or the reporting unit) using either a pro rata allocation based on relative carrying amounts or another reasonable and rational basis	A.2.2.4.1
Disposal of a business or nonprofit activity that constitutes a portion of a reporting unit	Goodwill is allocated to the business or nonprofit activity being disposed of based on the relative fair values of the business or nonprofit activity being sold and the portion of the reporting unit that will be retained	Goodwill is allocated to the business or nonprofit activity being disposed of using a reasonable and rational approach, which could be relative fair value	A.2.3.1
Amortization of equity method goodwill	Prohibited	Amortized on a straight-line basis over 10 years (or less)	A.2.3.2

With ASU 2021-03, the FASB provided a second accounting alternative that allows private companies and NFPs to assess whether triggering events for goodwill impairment under ASC 350-20 have occurred only as of the end of their annual reporting period or interim reporting period if they report more frequently (referred to as the goodwill triggering event evaluation accounting alternative).

Once elected, the goodwill triggering event evaluation accounting alternative applies only to goodwill that is subsequently accounted for in accordance with ASC 350-20. See section A.3 for further information on how an entity evaluates goodwill for impairment if it elects this accounting alternative. The application of this accounting alternative is optional, meaning that eligible private companies and NFPs can continue to follow the goodwill impairment guidance discussed in section 3.

Additionally, eligible entities can elect either the goodwill amortization accounting alternative or the goodwill triggering event evaluation accounting alternative, regardless of whether they have elected to apply the other alternative.

A.1.1 Definition of a private company, a PBE and a not-for-profit entity

Only private companies and NFPs are eligible to elect the goodwill accounting alternatives. Entities that are considering electing one or both goodwill accounting alternatives should carefully review the definition of a PBE because it includes several types of entities that would not be considered public under other definitions in US GAAP. For example, an entity is considered to be a PBE if its financial statements or financial information is included in another entity's SEC filing (e.g., an acquired business, significant equity method investee).

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Glossary

350-20-20

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Private Company

An entity other than a public business entity, a not-for-profit entity, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Because the definition of a PBE is broader than other definitions of a public company in US GAAP, private companies should carefully evaluate whether they still meet the definition of a private company and whether they expect to continue to meet it for the foreseeable future.

For example, if a company meets the definition of a private company (and therefore is currently eligible to apply the goodwill amortization accounting alternative or the goodwill triggering event evaluation accounting alternative) but later goes public, it would be required to retrospectively adjust its historical financial statements to comply with PBE US GAAP. This could be challenging and could affect other aspects of the financial statements. For example, assume a private company adopts the goodwill amortization accounting alternative and elects to test goodwill for impairment at the entity level. If the private company were to later go public and become a PBE, it would be required to retrospectively adjust its financial statements to reverse the goodwill amortization that was recognized under the goodwill amortization accounting alternative and test its goodwill for impairment at the reporting unit level. As another example, if a private company elects the goodwill triggering event evaluation accounting alternative and later becomes a PBE, it would be required to go back to the date of adoption of the alternative and evaluate whether a goodwill impairment test would have been triggered as of an earlier date. The entity would then need to perform goodwill impairment tests as of those interim dates without using hindsight (i.e., without considering the occurrence of events or changes in circumstances since those interim dates).[25]

All NFPs, including NFP conduit bond obligors, are eligible to elect one or both goodwill accounting alternatives.

[25] BC31 to 32 of ASU 2021-03.

A.2 Goodwill amortization accounting alternative

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

Accounting Alternative for Amortizing Goodwill

350-20-35-62

The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for amortizing goodwill.

350-20-35-63

Goodwill relating to each **business combination**, **acquisition by a not-for-profit entity**, or reorganization event resulting in fresh-start reporting (amortizable unit of goodwill) shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-20-35-63

Goodwill relating to each **business combination**, **acquisition by a not-for-profit entity**, **joint venture** formation, or reorganization event resulting in fresh-start reporting (amortizable unit of goodwill) shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

350-20-35-64

An entity may revise the remaining useful life of goodwill upon the occurrence of events and changes in circumstances that warrant a revision to the remaining period of amortization. However, the cumulative amortization period for any amortizable unit of goodwill cannot exceed 10 years. If the estimate of the remaining useful life of goodwill is revised, the remaining carrying amount of goodwill shall be amortized prospectively on a straight-line basis over that revised remaining useful life.

A private company or an NFP is required to amortize goodwill on a straight-line basis over 10 years, or less than 10 years if the entity can demonstrate that another useful life is more appropriate. The PCC decided to require a straight-line basis of amortization due to the inherent difficulties of predicting the actual pattern in which goodwill provides benefits to an entity, and the Board decided to extend the same guidance to NFPs.

A.2.1 Determining useful life

Because the goodwill amortization accounting alternative does not require entities to justify their useful life determination, entities may default to a useful life of 10 years. Private companies and NFPs may elect to amortize goodwill over a period of less than 10 years if they can demonstrate that a shorter useful life is more appropriate. However, under no circumstance may a useful life of greater than 10 years be assigned to goodwill.

We believe that the guidance in ASC 350-30-35-2 through 35-3 on determining the useful life of an intangible asset (discussed further in section 2.1) may be useful in evaluating the useful life of goodwill in circumstances in which a private company or an NFP believes that it can demonstrate that a useful life of less than 10 years is more appropriate. The useful life determination is made separately for each amortizable unit of goodwill.

An entity may revise the remaining useful life of goodwill if events or changes in circumstances indicate that a different useful life is more appropriate. However, the cumulative amortization period for any amortizable unit of goodwill cannot exceed 10 years. Any revision to the remaining useful life of goodwill is treated as a change in accounting estimate, which results in the remaining carrying amount of goodwill being amortized prospectively on a straight-line basis over the revised remaining useful life.

Upon adoption, an entity must assign a useful life to its existing amortizable units of goodwill (e.g., resulting from each prior business combination, acquisition by an NFP or application of fresh-start accounting) as of the beginning of the period of adoption. An entity also must begin amortizing the goodwill on a straight-line basis prospectively from the beginning of the period. Any subsequent additions to goodwill represent separate amortizable units of goodwill that should be assigned a useful life on an acquisition-by-acquisition basis.

A.2.2 Simplified impairment test

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

Accounting Alternative for Amortizing Goodwill

350-20-35-66

Goodwill of an entity (or a reporting unit) shall be tested for impairment if an event occurs or circumstances change that indicate that the fair value of the entity (or the reporting unit) may be below its carrying amount (a triggering event). Paragraph 350-20-35-3C(a) through (g) includes examples of those events or circumstances. Those examples are not all-inclusive, and an entity shall consider other relevant events and circumstances that affect the fair value or carrying amount of the entity (or of a reporting unit) in determining whether to perform the goodwill impairment test. For those entities that have elected the accounting alternative for a goodwill impairment triggering event evaluation in paragraph 350-20-35-84, a goodwill triggering event evaluation shall be performed only as of the end of each reporting period. If an entity determines that there are no triggering events, then further testing is unnecessary.

350-20-35-67

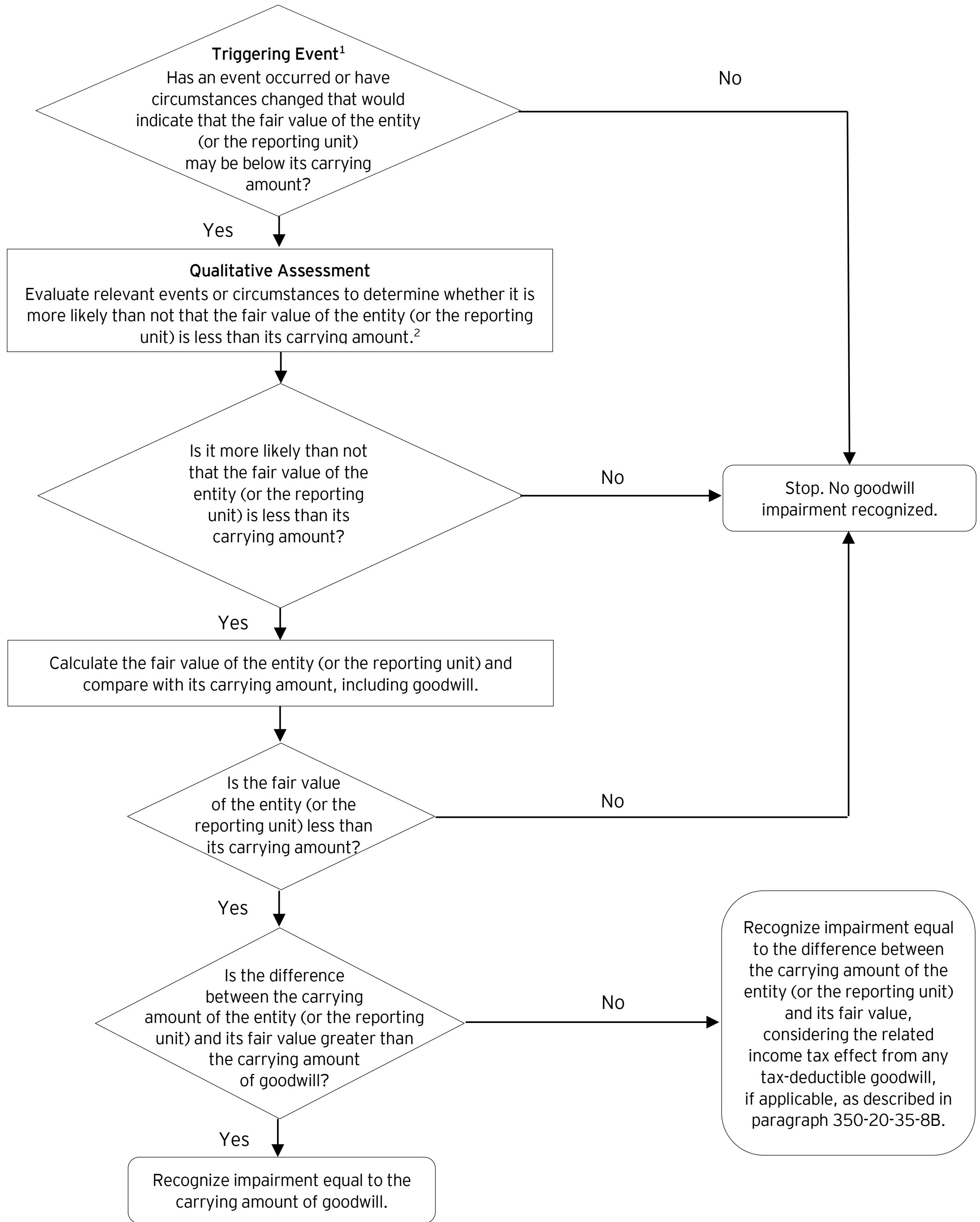
Upon the occurrence of a triggering event, an entity may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the entity (or the reporting unit) is less than its carrying amount, including goodwill. Paragraph 350-20-35-3C(a) through (g) includes examples of those qualitative factors.

350-20-35-70

An entity has an unconditional option to bypass the qualitative assessment described in paragraphs 350-20-35-67 through 35-69 and proceed directly to a quantitative calculation by comparing the entity's (or the reporting unit's) fair value with its carrying amount (see paragraphs 350-20-35-72 through 35-78). An entity may resume performing the qualitative assessment upon the occurrence of any subsequent triggering events.

Under PBE US GAAP, companies are required to test goodwill for impairment at the reporting unit level annually, and more frequently if indicators of impairment exist.

Under the goodwill amortization accounting alternative, goodwill is tested for impairment in accordance with the following flowchart taken from ASC 350-20-55-26:



[1] Entities that elect to also apply the goodwill triggering event evaluation accounting alternative will evaluate the occurrence of goodwill impairment triggering events only as of each reporting date. See section A.3.1 for further guidance.

[2] An entity has the unconditional option to skip the qualitative assessment and proceed directly to calculating the fair value of the entity (or reporting unit) and comparing that value with its carrying amount, including goodwill.

A.2.2.1 Level of impairment test

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

Accounting Alternative for Amortizing Goodwill

350-20-35-65

Upon adoption of this accounting alternative, an entity shall make an accounting policy election to test goodwill for impairment at the entity level or the **reporting unit** level. An entity that elects to perform its impairment tests at the reporting unit level shall refer to paragraphs 350-20-35-33 through 35-38 and paragraphs 350-20-55-1 through 55-9 to determine the reporting units of an entity.

350-20-35-75

The guidance in paragraphs 350-20-35-39 through 35-44 shall be considered in assigning acquired assets (including goodwill) and assumed liabilities to the reporting unit when determining the carrying amount of a reporting unit.

When it adopts the goodwill amortization accounting alternative, an entity is required to make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. If an entity elects to test goodwill at the entity level, it would no longer have to determine its reporting units.

If an entity elects to test goodwill for impairment at the reporting unit level, it would continue to follow existing guidance for determining reporting units and assigning assets (including goodwill) and liabilities to such reporting units as discussed in sections 3.8 and 3.9, respectively.

Regardless of the level at which a private company or an NFP elects to test goodwill for impairment, any impairment loss must be allocated to each amortizable unit of goodwill. In other words, a private company or an NFP would be required to track each amortizable unit of goodwill, regardless of the level at which it tests goodwill for impairment. For more information on allocating an impairment charge to amortizable units of goodwill, refer to section A.2.2.4.1.

A.2.2.2 Evaluating triggering events

Under the goodwill amortization accounting alternative, goodwill is tested for impairment when events or circumstances indicate that the fair value of the entity (or the reporting unit) may be below its carrying amount. This is known as a triggering event. If an entity determines that there are no triggering events, no impairment test is required. Because goodwill is being amortized under the goodwill amortization accounting alternative, we expect goodwill impairment tests to be performed less frequently than under PBE US GAAP, which requires goodwill to be tested at a minimum annually.

The following events and circumstances listed in ASC 350-20-35-3C are examples of triggering events:

- Macroeconomic conditions (e.g., deterioration in general economy)
- Industry and market considerations (e.g., deterioration in the environment in which the entity operates)
- Cost factors (e.g., increases in raw materials, labor)
- Overall financial performance (e.g., negative or declining cash flows)
- Other relevant entity-specific events (e.g., changes in management or key personnel)

- Events affecting a reporting unit (e.g., change in composition of net assets, expectation of disposing all or a portion of the reporting unit)

These events and circumstances are examples and not an all-inclusive listing of triggering events. Entities should consider other relevant events and circumstances that may affect the fair value or carrying amount of the entity (or reporting unit) when evaluating whether to perform the goodwill impairment test.

While the examples of triggering events are the same as those considered in the qualitative assessment (discussed further in section A.2.2.3), the nature and extent of the assessments differ. In paragraph BC23 of ASU 2014-02, the FASB observed that the assessment of triggering events should be similar with how a company applying PBE US GAAP evaluates goodwill impairment between annual tests. That is, the triggering event is an event that makes an entity stop and think about a potential impairment. Conversely, the optional qualitative assessment is part of the entity's documented goodwill impairment test requiring the entity to positively assert its conclusion about whether it is more likely than not that goodwill is impaired based on consideration of all events and circumstances, not just one triggering event.

A.2.2.3 Qualitative assessment

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

Accounting Alternative for Amortizing Goodwill

350-20-35-68

Because the examples included in paragraph 350-20-35-3C(a) through (g) are not all-inclusive, an entity shall consider other relevant events and circumstances that affect the fair value or carrying amount of the entity (or of the reporting unit) in determining whether to perform the quantitative goodwill impairment test. An entity shall consider the extent to which each of the adverse events and circumstances identified could affect the comparison of its fair value with its carrying amount (or of the reporting unit's fair value with the reporting unit's carrying amount). An entity should place more weight on the events and circumstances that most affect its fair value or the carrying amount of its net assets (or the reporting unit's fair value or the carrying amount of the reporting unit's net assets). An entity also should consider positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that its fair value is less than its carrying amount (or the fair value of the reporting unit is less than the carrying amount of the reporting unit). If an entity has a recent fair value calculation (or recent fair value calculation for the reporting unit), it also should include that calculation as a factor in its consideration of the difference between the fair value and the carrying amount in reaching its conclusion about whether to perform the quantitative goodwill impairment test.

350-20-35-69

An entity shall evaluate, on the basis of the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount. None of the individual examples of events and circumstances included in paragraph 350-20-35-3C(a) through (g) are intended to represent standalone events or circumstances that necessarily require an entity to perform the quantitative goodwill impairment test. Also, the existence of positive and mitigating events and circumstances is not intended to represent a rebuttable presumption that an entity should not perform the quantitative goodwill impairment test.

350-20-35-71

If, after assessing the totality of events or circumstances such as those described in paragraph 350-20-35-3C(a) through (g), an entity determines that it is not more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount, further testing is unnecessary.

350-20-35-72

If, after assessing the totality of events or circumstances such as those described in paragraph 350-20-35-3C(a) through (g), an entity determines that it is more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount or if the entity elected to bypass the qualitative assessment in paragraphs 350-20-35-67 through 35-69, the entity shall determine the fair value of the entity (or the reporting unit) and compare the fair value of the entity (or the reporting unit) with its carrying amount, including goodwill. A goodwill impairment loss shall be recognized if the carrying amount of the entity (or the reporting unit) exceeds its fair value.

ASC 350 provides entities the option to assess qualitative factors to determine whether a goodwill impairment test is necessary. The qualitative assessment allows entities to assess whether it is more likely than not (i.e., a likelihood of more than 50%) that the fair value of the entity (or the reporting unit) is less than its carrying amount. If an entity concludes based on the qualitative assessment that it is more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount, the entity is required to perform the one-step goodwill impairment test (see section A.2.2.4). If an entity concludes based on the qualitative assessment that it is **not** more likely than not that the fair value of the entity (or the reporting unit) is less than its carrying amount, it has completed its goodwill impairment test.

ASC 350-20-35-3C(a) through (g) provides examples of events and circumstances to evaluate in the qualitative assessment. Entities should place more weight on those events and circumstances that most affect the entity's (or the reporting unit's) fair value or carrying amount.

An entity has the unconditional option to skip the qualitative assessment and proceed directly to calculating the fair value of the entity (or reporting unit) and comparing that value with its carrying amount, including goodwill, to determine whether goodwill is impaired.

For additional considerations when performing a qualitative assessment, refer to section 3.1.1.

A.2.2.4 Calculation of impairment loss

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

350-20-35-73

A goodwill impairment loss, if any, shall be measured as the amount by which the carrying amount of an entity (or a reporting unit) including goodwill exceeds its fair value, limited to the total amount of goodwill of the entity (or allocated to the reporting unit). Additionally, an entity shall consider the income tax effect from any tax deductible goodwill on the carrying amount of the entity (or the reporting unit), if applicable, in accordance with paragraph 350-20-35-8B when measuring the goodwill impairment loss. See Example 2A in paragraph 350-20-55-23A for an illustration.

350-20-35-74

The guidance in paragraphs 350-20-35-22 through 35-27 shall be considered in determining the fair value of the entity (or the reporting unit).

350-20-35-76

For an entity subject to the requirements of Topic 740 on income taxes, when determining the carrying amount of an entity (or a reporting unit), deferred income taxes shall be included in the carrying amount of an entity (or the reporting unit), regardless of whether the fair value of the entity (or the reporting unit) will be determined assuming it would be bought or sold in a taxable or nontaxable transaction.

> *350-20-35-77*
>
> The goodwill impairment loss, if any, shall be allocated to individual amortizable units of goodwill of the entity (or the reporting unit) on a pro rata basis using their relative carrying amounts or using another reasonable and rational basis.
>
> *350-20-35-78*
>
> After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill shall be its new accounting basis, which shall be amortized over the remaining useful life of goodwill. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited.

A goodwill impairment loss is measured as the excess of the carrying amount (including goodwill) of the entity (or reporting unit) over its fair value. Any impairment loss is limited to the carrying amount of goodwill within the entity (or the reporting unit). If there is excess impairment loss over the carrying amount of goodwill, we believe an entity should evaluate whether that is an indicator that it should test the long-lived assets of the entity or reporting unit for impairment. Reversal of a goodwill impairment loss is prohibited. See section 3.3 for additional information about calculating the fair value of the entity or the reporting unit for purposes of performing the goodwill impairment test.

When determining the carrying amount of the entity (or the reporting unit), an entity is required to include any deferred income taxes in the carrying amount, regardless of whether the fair value of the entity (or the reporting unit) is determined assuming a taxable or nontaxable transaction. This is consistent with the requirements when performing the PBE quantitative impairment test. See section 3.1.3 for additional guidance on the consideration of deferred income taxes in determining the carrying amount of a reporting unit.

A.2.2.4.1 *Allocating an impairment loss to amortizable units of goodwill*

Any goodwill impairment loss should be allocated to the individual amortizable units of goodwill on a pro rata basis using their relative carrying amounts or using another reasonable or rational basis. The level at which an entity elects to test goodwill for impairment will determine the amortizable units of goodwill to which an impairment loss is allocated. Entities that test goodwill for impairment at the entity level will allocate impairment losses to amortizable units of goodwill of the entity, while entities that test goodwill for impairment at the reporting unit level will allocate impairment losses to amortizable units of goodwill of the reporting unit that is impaired. If an entity that elects to test goodwill for impairment at the reporting unit level calculates an impairment loss that exceeds the carrying amount of that reporting unit's goodwill, the impairment loss is limited to the carrying amount of the goodwill in that reporting unit. It would not be appropriate to allocate the remaining impairment loss to amortizable units of goodwill of other reporting units.

Illustration A-1: Allocation of goodwill impairment loss among amortizable units of goodwill

Private Co. adopts the goodwill amortization accounting alternative in its calendar year 20X4 financial statements and elects to test goodwill for impairment at the entity level. At the date of adoption (1 January 20X4), Private Co. determines that it has one amortizable unit of goodwill with a carrying amount of $240. Private Co. elects to amortize its goodwill over 10 years.

On 1 April 20X5, Private Co. acquires Target in a business combination, resulting in additional goodwill of $80. Private Co. determines that the goodwill generated through its acquisition of Target represents a separate amortizable unit of goodwill, also with a useful life of 10 years.

The table below summarizes the balance of Private Co.'s amortizable units of goodwill during its first two years of adoption of the goodwill amortization accounting alternative (i.e., through 31 December 20X5):

Amortizable units of goodwill:	Legacy	Target	Total
Goodwill balance 1 January 20X4	$ 240		$ 240
20X4 amortization	(24)		(24)
Goodwill balance 31 December 20X4	$ 216		$ 216
Acquisition of Target on 1 April 20X5		80	80
20X5 amortization	(24)	(6)[(1)]	(30)
Goodwill balance 31 December 20X5	$ 192	$ 74	$ 266

[1] Calculated as follows: ($80 / 10) * 9/12

On 1 July 20X6, Private Co. identifies a triggering event that indicates that the fair value of the entity may be below its carrying amount. Private Co. decides to skip the qualitative assessment and proceeds directly to the quantitative impairment test.

Private Co. adjusts the carrying amount of each amortizable unit of goodwill by the amortization expense recognized for the first six months of the year (prior to the identification of the triggering event that resulted in the impairment test being performed on 1 July).

	Legacy	Target	Total
Goodwill balance 31 December 20X5	$ 192	$ 74	$ 266
20X6 amortization (first six months)	(12)[(2)]	(4)[(3)]	(16)
Goodwill balance 1 July 20X6	$ 180	$ 70	$ 250

[2] Calculated as follows: ($240 / 10) * 6/12

[3] Calculated as follows: ($80 / 10) * 6/12

Private Co. then performs its quantitative impairment test and determines that the carrying amount of the entity exceeds its fair value by $30.

Analysis

Private Co. must allocate the goodwill impairment loss of $30 to its amortizable units of goodwill. Private Co. has adopted a policy of allocating a goodwill impairment loss to its amortizable units of goodwill on a pro rata basis using their relative carrying amounts. Accordingly, of the goodwill impairment loss, $22 ($180 / $250 * $30) would be allocated to the Legacy amortizable unit of goodwill and $8 ($70 / $250 * $30) would be allocated to the Target amortizable unit of goodwill, as follows:

	Legacy	Target	Total
Goodwill balance 1 July 20X6	$ 180	$ 70	$ 250
Impairment 1 July 20X6	(22)	(8)	(30)
Goodwill balance 1 July 20X6	$ 158	$ 62	$ 220

Private Co. would continue to amortize the new goodwill balances over their remaining useful lives. Accordingly, Private Co. would amortize the Legacy goodwill balance of $158 over 7.5 years (i.e., through 31 December 20Y3) and would amortize the Target goodwill balance of $62 over 8.75 years (i.e., through 31 March 20Y5).

A.2.2.5 Carrying amount of entity or reporting unit is zero or negative

The goodwill amortization accounting alternative does not specifically address how to test impairment when the carrying amount of the entity (or the reporting unit) is zero or negative. Some believe that the guidance in ASC 350-20-05-6, which requires an entity to continue to follow the requirements in ASC 350 for anything not specifically addressed in the goodwill amortization accounting alternative, would apply to such circumstances.

The goodwill amortization accounting alternative requires an entity to measure an impairment loss as the amount by which the carrying amount of an entity (or a reporting unit) exceeds its fair value. When the carrying amount of an entity (or a reporting unit) is zero or negative, the impairment calculation under the goodwill amortization accounting alternative likely would not result in an impairment loss, which is consistent with the guidance in ASC 350.

A.2.2.6 Goodwill impairment test in conjunction with another asset (or asset group)

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

350-20-35-79

If goodwill and another asset (or asset group) of the entity (or the reporting unit) are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. For example, if a significant asset group is to be tested for impairment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 on property, plant, and equipment (thus potentially requiring a goodwill impairment test), the impairment test for the significant asset group would be performed before the goodwill impairment test. If the asset group is impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

350-20-35-80

The requirement in the preceding paragraph applies to all assets that are tested for impairment, not just those included in the scope of the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10.

Because the impairment model uses the comparison of the fair value and the carrying amount of the entity (or the reporting unit) as the measure of impairment, ASC 350-20 requires that if an impairment test of goodwill and any other asset is required at the same time, impairment tests of all other assets (e.g., inventory, long-lived assets) should be completed and reflected in the carrying amount of the entity (or the reporting unit) prior to the completion of the goodwill impairment test. For example, if an impairment test under ASC 360-10 is being completed for a significant asset group, the impairment test for the significant asset group should be completed before the goodwill impairment test. If the asset group is impaired, the carrying amount of the entity (or the reporting unit) would reflect the amount of the impairment loss prior to goodwill being tested for impairment.

When a disposal group is held for sale, the order of impairment testing differs. For more detail, refer to sections 2.3.1.4 and 4.2.3.2 of our FRD, ***Impairment or disposal of long-lived assets***.

A.2.3 Other considerations

A.2.3.1 Disposal of a portion of an entity or a reporting unit

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Derecognition

Accounting Alternatives

350-20-40-8

The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for amortizing goodwill.

350-20-40-9

When a portion of an entity (or a **reporting unit**) that constitutes a business or **nonprofit activity** is to be disposed of, goodwill associated with that business or nonprofit activity shall be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal. An entity shall use a reasonable and rational approach to determine the amount of goodwill associated with the business or nonprofit activity to be disposed of.

When some but not all of an entity (or a reporting unit) that constitutes a business or nonprofit activity is disposed of, some of the goodwill of the entity (or the reporting unit) should be included in the carrying amount of the business or nonprofit activity when determining the gain or loss on disposal. No goodwill would be assigned to a portion of a reporting unit being disposed of if it does not meet the definition of a business or nonprofit activity. Section 2.1.3 of our FRD, ***Business combinations***, provides guidance in determining whether a group of assets constitutes a business under ASC 805.

Refer to sections 2.3.1.4 and 4.2.3.2 of our FRD, ***Impairment or disposal of long-lived assets***, for discussion of impairment testing when a disposal group is held for sale.

When a portion of a reporting unit is disposed of and that portion constitutes a business or nonprofit activity, entities should use a reasonable and rational approach to assign goodwill to the business or nonprofit activity being disposed of. Generally, the FASB considers the relative fair value approach to be reasonable and rational. However, other approaches, such as using relative carrying amount, may also be reasonable and rational. Refer to section 3.14 for more information on the relative fair value approach.

A.2.3.2 Equity method goodwill

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

350-20-35-81

The portion of the difference between the cost of an investment and the amount of underlying equity in net assets of an equity method investee that is recognized as goodwill in accordance with paragraph 323-10-35-13 (equity method goodwill) shall be amortized on a straight-line basis over 10 years, or less than 10 years if the entity demonstrates that another useful life is more appropriate.

350-20-35-82

However, equity method goodwill shall not be reviewed for impairment in accordance with this Subtopic. Equity method investments shall continue to be reviewed for impairment in accordance with paragraph 323-10-35-32.

ASC 323-10-35-13 requires that an equity method investor account for the difference between its cost basis in the investee and the investor's interest in the underlying net book value of the investee as if the investee were a consolidated subsidiary. The portion of the difference between the cost of the investment and the proportional fair value of the assets and liabilities of the investee is commonly referred to as "equity method goodwill." An entity applying the goodwill amortization accounting alternative amortizes any equity method goodwill on a straight-line basis over 10 years, or less than 10 years if it can demonstrate that another useful life is more appropriate.

Unlike goodwill arising from a business combination, an acquisition by an NFP or the application of fresh-start accounting, equity method goodwill is not tested for impairment under the goodwill amortization accounting alternative. Instead, equity method goodwill is tested for impairment under the guidance of ASC 323-10-35-32. Refer to section 6.8 of our FRD, ***Equity method investments and joint ventures***, for discussion of testing for other-than-temporary impairment of an equity method investment.

A.2.3.3 Income taxes

The guidance in the goodwill amortization accounting alternative does not address income tax accounting, so entities that elect to use it must continue to apply the unique and complicated income tax accounting requirements related to goodwill. Entities that elect to apply the goodwill amortization accounting alternative may find that their income tax accounting for goodwill amortization and impairment is more complicated. Adoption of the goodwill amortization accounting alternative also may have an effect on preexisting valuation allowances on deferred tax assets. Refer to section 11.3 in our FRD, ***Income taxes***, for further discussion.

A.2.4 Transition, presentation and disclosure

A.2.4.1 Transition requirements

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Transition and Open Effective Date Information

General

Transition Related to Accounting Standards Updates No. 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill, No. 2019-06, Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities, and No. 2021-03, Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events

350-20-65-2

The following represents the transition information related to Accounting Standards Update No. 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill,* No. 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities,* and No. 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events* referenced in paragraph 350-20-15-3A:

a. Upon adoption of the guidance for the accounting alternative for amortizing goodwill in the Accounting Alternatives Subsections of this Subtopic and the guidance in paragraph 323-10-35-13, that guidance shall be effective prospectively for new goodwill recognized after the adoption of that guidance. For existing goodwill, that guidance shall be effective as of the beginning of the first fiscal year in which the accounting alternative is adopted.

b. Goodwill existing as of the beginning of the period of adoption shall be amortized prospectively on a straight-line basis over 10 years, or less than 10 years if an entity demonstrates that another useful life is more appropriate.

c. Subparagraph superseded by Accounting Standards Update No. 2016-03.

d. Upon adoption of the accounting alternative for amortizing goodwill, an entity shall make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level.

e. A private company or not-for-profit entity that makes an accounting policy election to apply the accounting alternative for amortizing goodwill in the Accounting Alternatives Subsections of this Subtopic for the first time need not justify that the use of the accounting alternative is preferable as described in paragraph 250-10-45-2.

The goodwill amortization accounting alternative should be applied prospectively to new goodwill that is recognized after the alternative is adopted. For existing goodwill, the goodwill amortization accounting alternative should be applied as of the beginning of the first annual reporting period in which the goodwill amortization accounting alternative is adopted.

Goodwill existing as of the beginning of the period of adoption should be amortized prospectively on a straight-line basis over 10 years, or less than 10 years if the entity can demonstrate that another useful life is more appropriate (see section A.2 for further information). The Board provided this practical expedient to existing goodwill because of the challenges many entities would face when determining the remaining useful life and the burden it would be to go back and segregate the individual amortizable units of goodwill. Because PBE US GAAP requires goodwill to be tracked only at the reporting unit level, entities may not have access to goodwill for each individual acquisition and the related acquisition dates to determine the remaining amortization period.

As discussed further in section A.2.2.1, when an entity adopts the goodwill amortization accounting alternative, it must make a policy election to test goodwill for impairment at either the entity level or the reporting unit level.

A private company or an NFP that makes an accounting policy election to apply the guidance in the alternative for the first time may forgo a preferability assessment (i.e., the entity does not need to justify that the use of the goodwill amortization accounting alternative is preferable as described in ASC 250-10-45-2). However, any change in accounting policy after an entity initially elects the alternative will require a preferability assessment. Refer to our FRD, ***Accounting changes and error corrections***, for further discussion on preferability assessments.

A.2.4.2 Financial statement presentation

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Other Presentation Matters

Accounting Alternatives

350-20-45-4

The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4 that elect the accounting alternative for amortizing goodwill.

350-20-45-5

The aggregate amount of goodwill net of accumulated amortization and impairment shall be presented as a separate line item in the statement of financial position.

350-20-45-6

The amortization and aggregate amount of impairment of goodwill shall be presented in income statement or statement of activities line items within continuing operations (or similar caption) unless the amortization or a goodwill impairment loss is associated with a discontinued operation.

350-20-45-7

The amortization and impairment of goodwill associated with a discontinued operation shall be included (on a net-of-tax basis) within the results of discontinued operations.

ASC 350 requires that the aggregate amount of goodwill (net of accumulated amortization and any impairment) be presented as a separate line item in the balance sheet.

Goodwill amortization and impairment losses are required to be presented in the income statement before the subtotal "income from continuing operations" (or similar caption) unless the amortization or a goodwill impairment loss is associated with a discontinued operation. The amortization and impairment of goodwill associated with a discontinued operation should be included within the results of discontinued operations.

Any portion of goodwill assigned to a business or nonprofit activity that has been disposed of (as discussed in section A.2.3.1) should be recognized as part of the gain or loss on disposal of those assets and not with other goodwill impairment losses.

A.2.4.3 Disclosure requirements

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Disclosure

Accounting Alternatives

350-20-50-3A

The information in paragraphs 350-20-50-4 through 50-7 shall be disclosed in the notes to financial statements for any entity within the scope of paragraph 350-20-15-4 that elects the accounting alternative for amortizing **goodwill**.

350-20-50-4

The following information shall be disclosed in the notes to financial statements for any additions to goodwill in each period for which a statement of financial position is presented:

a. The amount assigned to goodwill in total and by major business combination, by major **acquisition by a not-for-profit entity**, or by reorganization event resulting in fresh-start reporting

b. The weighted-average amortization period in total and the amortization period by major business combination, by major acquisition by a not-for-profit entity, or by reorganization event resulting in fresh-start reporting.

350-20-50-5

The following information shall be disclosed in the financial statements or the notes to financial statements for each period for which a statement of financial position is presented:

a. The gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss

b. The aggregate amortization expense for the period

c. Goodwill included in a disposal group classified as held for sale in accordance with paragraph 360-10-45-9 and goodwill derecognized during the period without having previously been reported in a disposal group classified as held for sale.

350-20-50-6

For each goodwill impairment loss recognized, the following information shall be disclosed in the notes to financial statements that include the period in which the impairment loss is recognized:

a. A description of the facts and circumstances leading to the impairment

b. The amount of the impairment loss and the method of determining the fair value of the entity or the reporting unit (whether based on prices of comparable businesses or nonprofit activities, a present value or other valuation technique, or a combination of those methods)

c. The caption in the income statement or statement of activities in which the impairment loss is included

d. The method of allocating the impairment loss to the individual amortizable units of goodwill.

350-20-50-7

The quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) are not required for fair value measurements related to the financial accounting and reporting for goodwill after its initial recognition in a business combination or an acquisition by not-for-profit entity.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

350-20-50-4

The following information shall be disclosed in the notes to financial statements for any additions to goodwill in each period for which a statement of financial position is presented:

a. The amount assigned to goodwill in total and by major business combination, by major **acquisition by a not-for-profit entity**, by **joint venture** formation, or by reorganization event resulting in fresh-start reporting

b. The weighted-average amortization period in total and the amortization period by major business combination, by major acquisition by a not-for-profit entity, by joint venture formation, or by reorganization event resulting in fresh-start reporting.

350-20-50-7

The quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 820-10-50-2(bbb) are not required for fair value measurements related to the financial accounting and reporting for goodwill after its initial recognition in a business combination, an acquisition by not-for-profit entity, or a joint venture formation.

An entity must disclose that it has adopted the goodwill amortization accounting alternative in the period of adoption. Any additions to goodwill should be disclosed in the notes to the financial statements to provide the total amount assigned to goodwill and the amount assigned to goodwill by major business combination, major acquisition by an NFP or reorganization event. Similar to disclosures required in the period of acquisition for an acquired intangible asset (as discussed in section 4.2.2.1), entities must disclose the weighted average amortization period for both the total amount of goodwill and for each major business combination, major acquisition by an NFP or reorganization event.

A.3 Goodwill triggering event evaluation accounting alternative

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation

350-20-35-83

The following guidance for **goodwill** applies to entities within the scope of paragraph 350-20-15-4A that elect the accounting alternative for a goodwill impairment triggering event evaluation.

350-20-35-84

An entity may elect to perform its goodwill impairment triggering event evaluation only as of the end of each reporting period, whether the reporting period is an interim or annual period. That is, the entity would not evaluate goodwill impairment triggering events and measure any related impairment during the reporting period. An entity electing the accounting alternative shall assess whether events or circumstances have occurred that would require an entity to test goodwill for impairment as follows:

a. For an entity that has elected the accounting alternative for amortizing goodwill, the entity's evaluation of a triggering event, as described in paragraph 350-20-35-66, shall be performed only as of each reporting date.

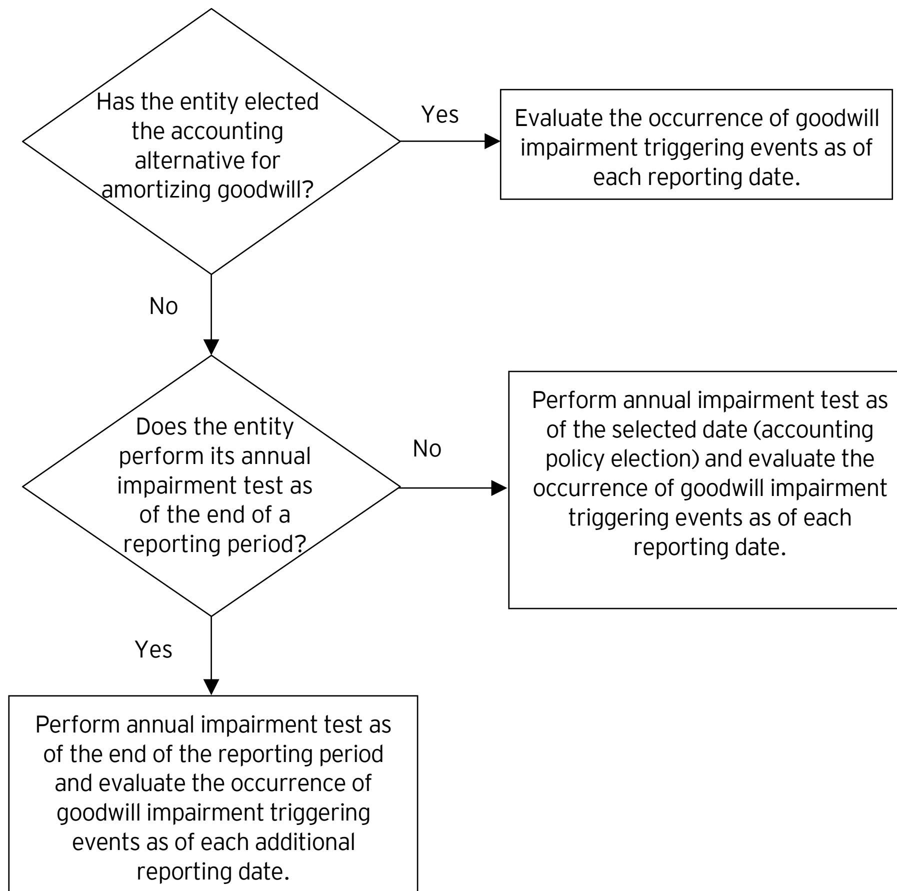
b. For an entity that has not elected the accounting alternative for amortizing goodwill:

   1. If the entity performs its annual goodwill impairment test as of the end of the reporting period, the entity shall not evaluate its goodwill for impairment during the reporting period as described in paragraph 350-20-35-30.

   2. If the entity performs its annual goodwill impairment test on a date other than the end of the reporting period (in accordance with paragraph 350-20-35-28), the entity's evaluation of impairment between annual goodwill impairment tests (as described in paragraph 350-20-35-30) shall be performed only as of the end of a reporting period.

Under the goodwill triggering event evaluation accounting alternative, private companies and NFPs are not required to monitor triggering events (i.e., events or circumstances that indicate that goodwill may be impaired) between reporting dates. Instead, entities that elect the alternative will assess whether events or changes in circumstances indicate that goodwill may be impaired only as of the end of their interim or annual reporting periods.

The following flowchart illustrates when an entity evaluates goodwill for impairment if it elects this alternative:



Private companies and NFPs can elect this alternative, regardless of whether they have elected to apply the goodwill amortization accounting alternative.

However, entities that have not elected the goodwill amortization accounting alternative and perform their annual test as of a date other than the end of a reporting period (e.g., 1 October for a year ending 31 December) will still be required to monitor events and circumstances as of each reporting date to determine whether an additional goodwill impairment test is required. Entities that want to align their annual impairment test date with their annual reporting date are required to follow the guidance in ASC 250 on making a voluntary accounting change.

A.3.1 Determining reporting date

While the guidance states that private companies and NFPs that elect the accounting alternative are required to evaluate goodwill for impairment only as of their annual reporting date or interim reporting date if they report more frequently, the guidance does not define the term "reporting date." The guidance also does not clarify the nature and composition of interim financial information for which an impairment evaluation is required or describe how an entity should determine whether such interim information complies with US GAAP. Therefore, determining whether an entity that elects the accounting alternative and reports financial information to users on an interim basis must evaluate goodwill impairment triggering events as of that interim date may be challenging.

The Board decided to include all private companies and NFPs in the scope of the alternative, regardless of the frequency of their reporting, because it acknowledged that many entities provide users, such as lenders, regulators and investors, with financial information that indicates that it complies with US GAAP more frequently than annually.[26] The Board also decided not to define the term "US GAAP-compliant financial information" because it concluded that entities should already be applying the provisions of ASC 350-20 anytime they report financial information that complies with US GAAP.[27] The Board intended the accounting alternative to affect only the timing of an entity's evaluation of the occurrence of goodwill impairment triggering events, not an entity's understanding of when it reports financial information.[28]

An entity that elects the accounting alternative and provides users with interim financial information will need to carefully consider whether that information is US GAAP-compliant and, thus, creates a reporting date. If a reporting date is created, the entity will need to evaluate whether events or circumstances indicate that a goodwill impairment test should be performed.

The nature of the events and circumstances an entity evaluates under this accounting alternative are the same the entity would evaluate if it were applying the goodwill amortization accounting alternative. See section A.2.2.2 for further guidance, including examples of possible triggering events.

A.3.2 Other considerations

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation

350-20-35-85

An entity electing this accounting alternative shall apply it only to goodwill evaluated in accordance with this Subtopic. This accounting alternative does not change the following:

a. The requirement to assess other assets for impairment (for example, long-lived assets and indefinite-lived intangibles) under existing guidance. If the impairment test related to other assets would have resulted in a goodwill impairment triggering event, an entity electing this accounting alternative should 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.

b. 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.

Entities that elect the goodwill triggering event evaluation accounting alternative will still need to evaluate whether indicators of impairment exist throughout the reporting period for other assets they are required to evaluate for impairment, such as long-lived assets and indefinite-lived intangible assets. The Board decided not to extend the alternative to other assets required to be evaluated for impairment because the Board said users of private company and NFP financial statements find information about long-lived assets and indefinite-lived intangible assets to be more relevant than information about goodwill, and it's less costly for preparers to determine the carrying amount and fair value of these other assets.

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[26] BC28 of ASU 2021-03.

[27] BC29 of ASU 2021-03.

[28] Ibid.

When indicators exist that require an entity to test other assets for impairment throughout the reporting period and those indicators also affect goodwill, the entity should consider whether those impairment indicators are still present at the next applicable goodwill impairment testing date.

When a business or nonprofit activity is disposed of and a portion of goodwill is allocated to that disposal, entities that apply the accounting alternative must still test any remaining goodwill for impairment, even though recognition of the disposal group may occur between reporting dates. Refer to section 3.14 for more information on allocating goodwill to the disposal of a business.

A.3.3 Effective date, transition and disclosure

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Goodwill

Subsequent Measurement

Accounting Alternatives

Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation

350-20-35-86

An entity shall not apply this guidance retroactively to interim periods for which annual financial statements have already been issued.

Disclosure

Accounting Alternatives

350-20-50-3B

An entity within the scope of paragraph 350-20-15-4A that elects the accounting alternative for a goodwill impairment triggering event evaluation shall disclose its use of the alternative as a significant accounting policy in accordance with paragraph 235-10-50-1.

Transition Related to Accounting Standards Update No. 2021-03, Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events

350-20-65-4

The following represents the transition and effective date information related to Accounting Standards Update No. 2021-03, Intangibles — Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events:

a. The pending content that links to this paragraph shall be effective prospectively for fiscal years 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. A private company or not-for-profit entity that adopts the pending content that links to this paragraph shall apply it as of the beginning of the interim or annual period for financial statements that have not yet been issued or made available for issuance in the year of adoption. A private company or not-for-profit entity shall not retroactively adopt the pending content that links to this paragraph as of the beginning of an annual period for which interim-period financial statements have already been issued in the year of adoption.

b. For a private company or not-for-profit entity that adopts the pending content that links to this paragraph after its original effective date, that pending content shall be applied prospectively as of the beginning of the first reporting period in which the accounting alternative is adopted.

c. A private company or not-for-profit entity that makes an accounting policy election to apply the pending content that links to this paragraph for the first time need not justify that the use of the accounting alternative is preferable as described in paragraph 250-10-45-2.

The goodwill triggering event evaluation accounting alternative is applied prospectively and is effective for fiscal years beginning after 15 December 2019. Entities may elect to apply it in both interim and annual financial statements that were not issued or made available for issuance as of 30 March 2021. An entity is not permitted to retroactively apply the alternative to interim financial statements already issued in the year of adoption.

An entity that elects the alternative and increases the frequency of its reporting (e.g., by issuing interim financial statements rather than just annual financial statements) will not apply the alternative retroactively to interim periods for which annual financial statements have already been issued and thus would not evaluate whether triggering events for goodwill impairment have occurred as of those interim reporting dates. For example, assume a calendar year-end company that elects the accounting alternative only prepares US GAAP financial statements on an annual basis. In February 2022, the entity issues its financial statements for the 12 months ended 31 December 2021. The entity subsequently enters into a debt arrangement with a bank that requires it to provide the lender with quarterly financial statements prepared in accordance with US GAAP beginning with the three months ended 31 March 2022. The entity would not reevaluate whether goodwill triggering events existed at 31 March 2021 for purposes of preparing the comparative set of quarterly financial statements because the entity has already issued its 2021 annual financial statements.

An entity must disclose that it has adopted the goodwill triggering event evaluation accounting alternative in the period of adoption. Entities can adopt the alternative prospectively after the effective date without assessing preferability under ASC 250.

B Crypto assets (after the adoption of ASU 2023-08) (added June 2024)

B.1 Overview

"Digital assets" is an umbrella term used in practice to describe a wide range of assets that are typically powered by blockchain (or other similar "distributed ledger") technology. Distributed ledger technology relies on cryptography, a mathematical communication technique that is used to verify and secure transactions on a ledger generally maintained by a decentralized network of participants.

Some digital assets may be traded on an exchange (i.e., because units of the asset are fungible) and need to be transferred or sold to another party for an entity to realize an economic benefit (i.e., they have little to no intrinsic value). Other digital assets are backed by other assets or may entitle the holder to receive an underlying good or service from another party (e.g., utility tokens). Other digital assets represent ownership of a digital or physical asset and are nonfungible (e.g., nonfungible tokens (NFTs)).

The emergence and proliferation of a variety of digital assets in recent years has raised questions about how holders of these assets should account for them. In the absence of specific authoritative guidance, stakeholders have generally agreed that most frequently exchanged digital assets meet the definition of indefinite-lived intangible assets under ASC 350. Accordingly, most entities have historically accounted for these assets at historical cost less impairment. However, specialized entities such as investment companies in the scope of ASC 946, *Financial Services — Investment Companies*, and broker-dealers in the scope of ASC 940, *Financial Services — Brokers and Dealers*, have accounted for their investments in these assets at fair value, similar to their other investments.

In December 2023, the FASB issued ASU 2023-08, *Intangibles — Goodwill and Other — Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*, to specifically address the accounting for and disclosure of a subset of digital assets that meet certain criteria (this subset is referred to in US GAAP and throughout this appendix as "crypto assets"). The guidance, which is codified in new subtopic ASC 350-60, requires all entities to subsequently measure the crypto assets they hold at fair value each reporting period in accordance with ASC 820, *Fair Value Measurement*.

The guidance responds to stakeholder feedback that the cost-less-impairment model in ASC 350 does not provide relevant information to financial statement users because it only reflects decreases in the value of crypto assets while they are held (i.e., any increase in value is recognized only upon disposition). Most stakeholders agreed that measuring crypto assets at fair value better reflects the economics of the assets and reduces the cost and complexity of applying the cost-less-impairment model. Requiring fair value measurement also reduces diversity by aligning a holder's accounting for crypto assets with that of entities subject to certain industry-specific guidance (e.g., investment companies).

Specific presentation and disclosure guidance in ASC 350-60 also addresses investors' requests for financial information about crypto assets to be more clearly presented on the face of the financial statements and for more detailed information to be disclosed about the types of crypto assets entities hold and any changes in those holdings over time.

This appendix only addresses the accounting for crypto assets held by entities that have adopted ASU 2023-08. Digital assets that do not meet all the scope criteria described in ASC 350-60 should be accounted for in accordance with other applicable US GAAP.

B.2 Scope

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Crypto Assets

Overview and Background

350-60-05-1

This Subtopic provides guidance on the subsequent measurement, presentation, and disclosure of crypto assets that are within the scope of this Subtopic.

Scope and Scope Exceptions

350-60-15-1

The guidance in this Subtopic applies to holdings of assets that meet all of the following criteria:

a. Meet the definition of **intangible assets** as defined in the Codification

b. Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets

c. Are created or reside on a distributed ledger based on blockchain or similar technology

d. Are secured through cryptography

e. Are fungible

f. Are not created or issued by the reporting entity or its related parties.

350-60-15-2

The guidance in this Subtopic applies to all entities that hold crypto assets.

ASC 350-60 applies to all entities that hold crypto assets within the scope of the subtopic (i.e., public business entities, private companies, not-for-profit entities and employee benefit plans). Certain specialized entities that account for crypto assets at fair value under industry-specific guidance (e.g., investment companies that apply ASC 946) are subject to the enhanced disclosure requirements in ASC 350-60, as discussed in section B.7.

The Board acknowledged in the Background Information and Basis for Conclusions of ASU 2023-08 that application of the six scope criteria results in a relatively narrow scope.[29] Determining whether digital assets meet the scope criteria may be straightforward in some cases. For example, we generally believe that identifying whether assets are created or reside on distributed ledger technology and are secured through cryptography will be clear (those two technological characteristics distinguish crypto assets from other intangible assets that exist in digital form, such as software and digital media). In other cases, determining whether the scope criteria are met may be more complex and could require additional judgment based on the facts and circumstances. Sections B.2.1 through B.2.4 focus on several scope criteria that we believe may require more careful analysis.

Digital assets that do not meet all six criteria described in ASC 350-60 should be accounted for in accordance with other applicable US GAAP. For example, digital assets that meet the definition of an intangible asset but don't meet the other five criteria may be determined to have an indefinite-life. Indefinite-lived intangible assets are tested for impairment annually, and more frequently if impairment indicators exist, under the subsequent accounting model in ASC 350 (discussed in section 2.3.2 of this publication).

[29] Basis for Conclusions (BC) 13 from ASU 2023-08.

In addition, ASC 350-60 does not address what it means to "hold" a crypto asset. Accordingly, in determining whether crypto assets should be recognized in the financial statements, we believe it is important that entities perform an evaluation of whether the entity is the owner of the asset. In practice, entities may hold crypto assets directly or indirectly through a third-party custodian or exchange. Determining whether an entity owns crypto assets may be challenging, depending on the terms and structure of the arrangement with the third party that controls access to the crypto assets and the legal and regulatory environment in which the custodian or exchange operates. Refer to our Technical Line publication, ***Accounting for digital assets, including crypto assets***, for additional guidance to consider when performing an ownership analysis.

B.2.1 Assets meet the definition of 'intangible assets'

An important scope criterion to consider is whether the digital assets meet the definition of intangible assets in ASC 350. Intangible assets are broadly defined in the Master Glossary as assets (other than goodwill) that "lack physical substance (not including financial assets)." A financial asset is defined in US GAAP as cash, evidence of an ownership interest in an entity or a contract that conveys to one entity a right to do either of the following:

- Receive cash or another financial instrument from a second entity
- Exchange other financial instruments on potentially favorable terms with the second entity

Accordingly, by definition, assets that meet the definition of a financial asset, such as securities and fiat currency, cannot be intangible assets and are excluded from the scope of ASC 350-60. Refer to our FRD, ***Certain investments in debt and equity securities***, for guidance on accounting for investments in securities.

When evaluating whether this scope criterion is met, it also may be helpful to consider the US GAAP definitions of other types of assets included in the following table. We generally believe that digital assets that do not meet any of these definitions are likely to be intangible assets.

	US GAAP definitions	**Questions to consider**
Cash and cash equivalents	Cash includes currency, demand deposits with financial institutions and other accounts that have the general characteristics of demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and represent insignificant risk of changes in value.	‣ Is the asset generally accepted as legal tender? ‣ Is the asset backed by a sovereign government? ‣ Does the asset have a maturity date? ‣ Has the asset experienced significant price volatility?
Financial instrument	A financial instrument is cash, an ownership interest in an entity or a contract that imposes an obligation to deliver or a right to receive cash or another financial instrument.	‣ Does the asset represent cash or an ownership interest in an entity? ‣ Does the asset represent a contractual obligation to deliver or a right to receive cash or another financial instrument?
Inventory	Inventory is tangible property held for sale in the ordinary course of business, in process of production for sale or to be consumed in the production of goods or services.	‣ Does the asset have physical substance?

B.2.2 Assets do not provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets

The Board established a criterion that excludes from the scope of the guidance digital assets that provide the asset holder with enforceable rights to, or claims on, underlying goods, services, or other assets. The Board established this criterion because it was concerned that certain arrangements ordinarily subject to other US GAAP (consistent with their substance) could be inappropriately included in the scope of ASC 350-60 when those arrangements exist in digital form (e.g., contracts with customers, guarantees, insurance contracts).[30]

Notably, the Board observed that this criterion also excludes from the scope of ASC 350-60 assets that entitle the holder to receive underlying crypto assets.[31] That is, fair value accounting would not apply, even when the underlying asset meets all six scope criteria.

While "enforceable" is not defined in the context of this scope criterion, the Board indicated in the Basis for Conclusions that the term is used in several places throughout US GAAP (e.g., ASC 606, ASC 842). The Board observed that in many cases, determining whether a crypto asset provides the asset holder with an enforceable right to underlying goods, services or other assets will be clear, but acknowledged that the determination may require judgment.[32]

B.2.3 Assets are fungible

The fungibility criterion excludes NFTs and other nonfungible digital assets from the scope of ASC 350-60. While not defined in the Master Glossary, the concept of fungibility is mentioned in US GAAP. In general, an asset (or units of an asset) is fungible when it can be replaced by an identical or near identical asset (i.e., units are interchangeable). The Board decided that obtaining pricing information for digital assets that are not fungible could be costly, complex and may result in the reporting of a fair value measurement that is less relevant to financial statement users.

B.2.4 Assets are not created or issued by the reporting entity or its related parties

The Board established a criterion that assets created or issued by the reporting entity or its related parties are not in the scope of ASC 350-60. Entities should refer to the definition of "related parties" as defined in the Master Glossary when making this determination. However, the Board clarified that a reporting entity that receives newly created crypto assets as consideration in exchange for performing mining and validating services is not considered the creator of the crypto assets. Therefore, the crypto assets received could still be in the scope of ASC 350-60, so long as the mining or validating activities represent the only involvement an entity has in the creation of the asset.[33]

B.3 Initial measurement and recognition

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Crypto Assets

Overview and Background

350-60-05-2

This Subtopic does not address the initial measurement, recognition, and derecognition of crypto assets. Reporting entities shall account for the initial measurement, recognition, and derecognition of crypto assets in accordance with other generally accepted accounting principles (GAAP).

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[30] BC19 from ASU 2023-08.

[31] BC21 from ASU 2023-08.

[32] BC20 of ASU 2023-08.

[33] BC15 to BC17 from ASU 2023-08.

ASC 350-60 specifies that entities should initially measure and recognize crypto assets by applying other US GAAP. A company should evaluate the nature of the transaction through which it obtains crypto assets to determine their initial accounting. For example, crypto assets that are acquired individually or in a group that is not a business are recognized at cost in accordance with ASC 350-10 (which references the asset acquisition guidance in ASC 805-50).

The following table summarizes several ways in which crypto assets can be obtained and the corresponding guidance that is generally applied to initially measure and recognize them. Judgment may be required and other US GAAP may apply depending on an entity's facts and circumstances.

Nature of transaction through which an entity obtains crypto assets	Relevant guidance to consider	Initial Measurement
Acquired in an asset acquisition	ASC 350-10 (references ASC 805-50)	Cost (allocated on a relative fair value basis)
Received in exchange for providing goods or services to a customer	ASC 606	Noncash consideration recognized at fair value at contract inception
Received in exchange for performing mining or staking activities to a non-customer	ASC 606 (by analogy)	Noncash consideration recognized at fair value at contract inception
Acquired in a business combination	ASC 805	Acquisition-date fair value
Received in exchange for nonfinancial assets (e.g., other crypto assets)	ASC 610-20	Noncash consideration recognized at fair value at contract inception
	ASC 845	Noncash consideration recognized based on the fair value of the asset given up or, if more clearly evident, the fair value of the asset received

The Board decided not to provide guidance beyond what is already included in other US GAAP on how to recognize transaction costs incurred to obtain crypto assets. For example, an entity that acquires crypto assets in an asset acquisition would follow the guidance in ASC 805-50 and capitalize transaction costs as part of its cost basis. The Board said that, regardless of whether transaction costs are capitalized or expensed, the effect on comprehensive income would be the same because crypto assets are subsequently remeasured at fair value.[34]

B.4 Subsequent measurement and related fair value considerations

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Crypto Assets

Subsequent Measurement

350-60-35-1

An entity shall measure crypto assets at **fair value** in the statement of financial position. Gains and losses from the remeasurement of crypto assets shall be included in net income.

[34] BC35 from ASU 2023-08.

The guidance requires entities to subsequently measure crypto assets that meet the scoping criteria at fair value with changes from remeasurement recognized in net income each reporting period. The Board believes this approach provides investors with more decision-useful information about the value at which crypto assets can be sold and changes in that value.[35]

The guidance requires entities to apply the fair value measurement framework in ASC 820 to crypto assets. The Board considered certain measurement alternatives (e.g., historical cost with modified impairment, net realizable value) but rejected them, saying they would provide information that is less relevant and be more costly and complex to apply than the fair value measurement model.

Sections B.4.1 through B.4.4 focus on the application of several key aspects of ASC 820 in the context of crypto assets. Refer to our FRD, ***Fair value measurement***, for guidance on applying ASC 820's principles-based framework in circumstances where US GAAP requires the use of fair value.

B.4.1 Identifying the principal market

A fair value measurement contemplates an orderly transaction to sell the asset in its principal market. ASC 820 defines "principal market" as the market with the greatest volume and level of activity for the asset or liability. The determination of the principal market (and, as a result, the market participants in the principal market) is made from the perspective of the reporting entity.

In determining the fair value of a crypto asset, an entity needs to identify its principal market or, in the absence of a principal market, the most advantageous market (i.e., the market that maximizes the amount that would be received to sell the asset). The market with the greatest volume and level of activity that an entity has access to for the crypto asset is generally the entity's principal market for that crypto asset. This determination may require an assessment of whether there are any barriers that prevent the entity from accessing a particular market. Accordingly, an entity may identify different principal markets for different types of crypto assets based on where and how the entity transacts in those crypto assets. Further, different entities may identify different principal markets for the same crypto asset depending on which markets those entities normally transact in or otherwise have access to.

How an entity measures the fair value of a crypto asset depends on whether the principal market is active (i.e., transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis) and whether the entity can access the principal market on the measurement date. The types of crypto assets that are generally expected to fall within the narrow scope of ASC 350-60 (e.g., bitcoin, ether) generally trade with sufficient volume to be considered actively traded on exchanges or over-the-counter markets.

When identifying the principal (or most advantageous) market, an entity is not required to undertake an exhaustive search of all possible exit markets for the asset, but it should consider all information that is reasonably available. In the absence of evidence to the contrary, the market in which an entity normally transacts to sell an asset is presumed to be the principal or most advantageous market. An entity should also evaluate whether there are any indicators that transactions in the principal market are not orderly. If there are indicators that transactions in the entity's principal market are not orderly, the entity needs to assess whether that market provides relevant and reliable price and volume information. Circumstances that may indicate that a transaction is not orderly include: the seller is in or near bankruptcy or receivership (i.e., the seller is distressed), the seller was required to sell to meet regulatory or legal requirements (i.e., the seller was forced), or the transaction price is an outlier when compared with other recent transactions for the same asset. An entity need not undertake exhaustive efforts to determine whether a

[35] BC29 from ASU 2023-08.

transaction is orderly. However, information that is reasonably available cannot be ignored.

If an entity determines that the principal market for its crypto asset holdings is an active market, ASC 820 requires fair value to be calculated as the quoted price for identical assets multiplied by the quantity held by the entity. Even if the entity's principal market is not active (i.e., there has been a significant decrease in the volume and level of activity in the principal market), quoted prices may still be observed in that market. In this case, the entity should assess the relevance and reliability of the observed prices and prioritize observable inputs in arriving at fair value.

Question B.4-1 **If an entity normally buys and sells crypto assets through a broker, can that entity identify a market other than the broker market (for example, an exchange) as the principal market?**

Generally, no. To overcome the presumption that the market in which the entity normally transacts (i.e., the broker market) is the principal market, the entity would need to obtain sufficient evidence from readily available information indicating that the volume and level of activity in the exchange market is greater than that of the broker market. Performing a sufficient comparison of volume and level of activity between these markets is generally not possible because there is generally a lack of publicly available information about the volume and pricing of crypto asset transactions in non-exchange markets (e.g., broker markets).

B.4.2 Restrictions on the sale of crypto assets

ASC 820 is clear that a fair value measurement should consider characteristics specific to the asset that market participants would consider when pricing the asset. ASC 820 indicates that the effect on fair value of a restriction on the sale or use of an asset will differ depending on whether the restriction is deemed to be a characteristic of the asset or the entity holding the asset. When determining the fair value of its crypto asset holdings, an entity should consider restrictions on the sale or use of the crypto assets (e.g., restrictions placed on staked assets) and whether the restrictions are taken into consideration by a market participant when valuing the assets. The effect of a restriction on the fair value measurement depends on whether the restriction is deemed to be a characteristic of the asset or the entity holding the asset.

A restriction that transfers with the crypto asset in an assumed sale would generally be deemed a characteristic of the asset and, therefore, would likely be considered by a market participant when pricing the asset. Conversely, a restriction that is specific to the entity holding the asset and does not transfer in an assumed sale is not considered when measuring the fair value of the crypto asset. Determining whether a restriction is a characteristic of the asset or the entity requires judgment based on the facts and circumstances.

B.4.3 Fair value hierarchy

Although a fair value measurement contemplates the price in an assumed transaction, pricing information from actual transactions for identical or similar assets and liabilities is considered in determining fair value. ASC 820 establishes a fair value hierarchy to prioritize the inputs used to measure fair value, based on the relative reliability of those inputs. ASC 820 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

We believe a level 1 fair value hierarchy classification would be appropriate if the crypto asset's valuation is based on a quoted price for the identical asset in an active market. If an entity's principal market for a crypto asset is not active or if the crypto asset is subject to a restriction that is deemed to be a characteristic of the asset, the measurement would be classified as level 2 or level 3, depending on the nature of the adjustments made to the quoted price. An entity may need to change the hierarchy level for a crypto asset if market conditions change.

B.4.4 Cutoff of crypto asset transactions

Crypto asset transactions can occur on decentralized networks at any time and are not constrained by the regular business hours or specific time zones of traditional marketplaces historically established to trade in financial assets. Additionally, the speed at which distributed ledger technology processes transactions can differ significantly, which could cause cutoff issues if there are delays in processing. For these reasons, companies should establish policies to determine the reporting period in which crypto asset transactions occur and apply these policies consistently.

B.5 Sale or disposition of crypto assets

Because crypto assets are intangible assets, ASC 350-10-40-1 requires an entity to account for their sale in accordance with the guidance on the derecognition of nonfinancial assets in ASC 610-20 (unless a scope exception applies). The applicable derecognition guidance and related scope exceptions are discussed in further detail in section 2.5.

Because changes in the fair value of crypto assets are recognized in net income as they occur, gains or losses are not separately recognized when crypto assets are sold (i.e., assuming the sales proceeds are received at the same time the derecognition criteria in ASC 606-10-25-1 are met). However, an entity that has not yet recorded the change in the crypto asset's fair value since its last reporting date up to the date on which the disposal occurs may recognize gains or losses attributable to the crypto asset's final fair value remeasurement in net income.

B.6 Presentation

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Crypto Assets

Other Presentation Matters

350-60-45-1

Crypto assets shall be presented separately from other **intangible assets** in the statement of financial position. An entity is permitted to present crypto assets on a more disaggregated basis (for example, by individual crypto asset holding or **intangible asset class**).

350-60-45-2

Gains and losses from the remeasurement of crypto assets shall be included in net income and presented separately from changes in the carrying amount of other intangible assets.

350-60-45-3

For guidance related to the presentation of cash receipts arising from the sale of crypto assets that are received as noncash consideration in the ordinary course of business (or as a **contribution**, in the case of a **not-for-profit entity**) and are converted nearly immediately into cash, see paragraphs 230-10-45-21A and 230-10-45-27A.

230-10-45-21A

Cash receipts resulting from the sale of donated **financial assets** (for example, donated debt or equity instruments) or crypto assets accounted for in accordance with Subtopic 350-60 by NFPs that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash shall be classified as operating cash flows. If, however, the donor restricted the use of the contributed resource to a long-term purpose of the nature of those described in paragraph 230-10-45-14(c), then those cash receipts meeting all the conditions in this paragraph shall be classified as a financing activity.

230-10-45-27A

If crypto assets accounted for in accordance with Subtopic 350-60 are received as noncash consideration in the ordinary course of business (for example, in exchange for goods and services transferred to a customer) and converted nearly immediately into cash, the cash received shall be classified as operating activities. In this context, the term *nearly immediately* refers to a short period of time that is expected to be within hours or a few days, rather than weeks.

Entities are required to present crypto assets measured at fair value separately from other intangible assets in the balance sheet. The Board decided not to specify where crypto assets should be presented in a classified balance sheet (i.e., as current or noncurrent), but indicated that ASC 210, *Balance Sheet*, provides adequate guidance for making this determination.[36]

Similarly, gains and losses on crypto assets are required to be presented separately from amortization expense and impairment losses related to other intangible assets in the income statement (or statement of activities for not-for-profit organizations). The Board said that gains or losses arising from the remeasurement of crypto assets should be presented in operating or nonoperating income, depending on the entity's facts and circumstances.[37]

The Board said separate presentation will provide investors with relevant information about how management is generating value from its crypto asset holdings.

The guidance also requires an entity to classify cash receipts from the sale of crypto assets that it receives as noncash consideration in the ordinary course of business and converts nearly immediately into cash as cash flows from operating activities. The term "nearly immediately" refers to a short period of time that is expected to be within hours or a few days, rather than weeks.[38] Entities should apply the guidance in ASC 230 to determine the appropriate classification of cash flows related to other crypto asset transactions, based on an entity's facts and circumstances.

The Board said investment companies[39] and not-for-profit entities[40] should continue applying the guidance in ASC 946-205, *Financial Services — Investment Companies — Presentation of Financial Statements*, and ASC 958, *Not-For-Profit Entities*, respectively, when presenting amounts related to crypto assets in their financial statements.

B.7 Disclosure

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Crypto Assets

Disclosure

350-60-50-1

At interim and annual reporting periods, an entity shall disclose the following for each significant (as determined by the **fair value**) crypto asset holding:

a. Name of the crypto asset

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[36] BC43 from ASU 2023-08.

[37] BC48 from ASU 2023-08.

[38] BC53 explains that for NFPs, the term "nearly immediately" in the context of the liquidation of donated crypto assets may be interpreted to mean days, not months, consistent with the classification of cash flows related to the sale of donated financial assets. The Board acknowledged that this interpretation is similar, but not identical, to the meaning of the term as it is expected to be applied by all other entities (i.e., hours or a few days).

[39] BC27 from ASU 2023-08.

[40] As discussed in the 14 December 2022 FASB Board meeting and consistent with our understanding from discussions with the FASB staff.

b. Cost basis

c. Fair value

d. Number of units held.

An entity shall disclose the aggregated cost bases and fair values of the crypto asset holdings that are not individually significant.

350-60-50-2

At annual reporting periods, an entity shall disclose both of the following:

a. The method used to determine its cost basis for computing gains and losses (for example, first-in, first-out; specific identification; average cost; or other method used)

b. If not presented separately, the line item in which gains and losses are reported in the income statement.

350-60-50-3

At annual reporting periods, an entity shall provide a reconciliation, in the aggregate, of activity from the opening to the closing balances of crypto assets, separately disclosing changes during the period attributable to the following:

a. Additions.

b. Dispositions.

c. Gains included in net income for the period, determined on a crypto-asset-by-crypto-asset basis. Each crypto asset holding that has a net gain from remeasurement as included in net income for the period shall be included in the gains line.

d. Losses included in net income for the period, determined on a crypto-asset-by-crypto-asset basis. Each crypto asset holding that has a net loss from remeasurement as included in net income for the period shall be included in the losses line.

350-60-50-4

An entity shall disclose the following information about the reconciliation in paragraph 350-60-50-3:

a. A description of the nature of activities that result in additions (for example, purchases, receipts from **customers**, or mining activities) and dispositions (for example, sales or use as payment for services)

b. Total amount of cumulative realized gains and cumulative realized losses from dispositions that occurred during the period.

350-60-50-5

An entity that receives crypto assets as noncash consideration in the ordinary course of business (or as a **contribution**, in the case of a **not-for-profit entity**) that are converted nearly immediately into cash need not include that activity in the disclosures required by paragraphs 350-60-50-3 through 50-4.

350-60-50-6

For interim and annual reporting periods, an entity shall disclose the following information for crypto assets subject to contractual sale restrictions at the balance sheet date:

a. The fair value of the crypto assets that are subject to contractual sale restrictions

b. The nature and remaining duration of the restriction(s)

c. Circumstances that could cause the restriction(s) to lapse.

350-60-50-7

In providing the required disclosures in paragraph 350-60-50-6, an entity with multiple crypto assets subject to contractual sale restrictions shall consider all of the following:

a. The level of detail necessary to satisfy the required disclosures

b. How much emphasis to place on each of the required disclosures

c. How much aggregation or disaggregation to undertake

d. Whether users of financial statements need additional information to evaluate the quantitative information disclosed.

The guidance requires entities to make disclosures about the types of crypto assets they hold and any changes in their holdings of crypto assets. Entities that follow other industry-specific guidance (e.g., investment companies under ASC 946) are also required to follow this disclosure guidance.

Certain of the disclosures are required for "significant" crypto asset holdings. While the guidance in ASC 350-60 specifies that significance is determined based on fair value, the Board did not provide any bright lines on what is considered significant and indicated that using the term "significant holdings" is consistent with other US GAAP requirements.[41] Entities may need to use judgement and consider both qualitative and quantitative factors when determining whether a crypto asset holding is considered significant.

The table below describes the disclosures and indicates the reporting periods in which the disclosures are required.

Disclosure requirement	Annual periods	Interim periods
The name, cost basis, fair value and number of units for each significant crypto asset holding (as determined based on the fair value) and the aggregate cost basis and fair value of holdings that are not individually significant	✓	✓
The fair value of crypto assets that are subject to contractual sale restrictions, the nature and remaining duration of the restriction(s), and the circumstances that could cause the restriction(s) to lapse	✓	✓
The method used for determining the cost basis of crypto assets (e.g., first-in, first-out; specific identification; average cost)	✓	✗
A reconciliation, in the aggregate, of crypto asset activity from the beginning to the end of the reporting period that separately displays additions and dispositions, and gains and losses reflected in net income	✓	✗
The line item in which gains and losses are reported in the income statement, if not presented separately	✓	✗
The difference between the disposal price and the cost basis (i.e., the total amount of cumulative realized gains and cumulative realized losses) for dispositions of crypto assets that occur during the reporting period	✓	✗

[41] BC61 from ASU 2023-08.

When providing a reconciliation of aggregate crypto asset activity from the beginning to the end of the annual reporting period, entities are also required to provide a description of the nature of the activities that resulted in the additions (e.g., purchases, receipts from customers, mining activities) and dispositions (e.g., sales, use as payment for services). This reconciliation and the disclosure of cumulative realized gains and cumulative realized losses does not need to include activities in which an entity receives crypto assets as noncash consideration in the ordinary course of business (or as a contribution in the case of a not-for-profit entity) that are converted nearly immediately into cash.

The fair value disclosure requirements in ASC 820 would also apply to crypto assets.

The following illustration gives an example of the reconciliation disclosures required for crypto asset activity during a period.

Illustration B-1: Crypto asset reconciliation disclosure

ABC Company had the following crypto asset balances and activity during the year ended 31 December 20X2:

- The balance of crypto assets as of 31 December 20X1 was $550,000, consisting of Crypto Asset A and Crypto Asset B.
- ABC Company obtained $100,000 of Crypto Asset A as a result of crypto mining activities.
- ABC Company received $150,000 of Crypto Asset B as noncash consideration for the sale of goods or services in the ordinary course of business. $40,000 of that was converted nearly immediately into cash.
- ABC Company disposed of $50,000 of Crypto Asset A to pay for goods and services from other entities during the year. This disposition resulted in cumulative realized gains of $15,000.
- ABC Company had a net gain of $25,000 on its holdings of Crypto Asset A and a net loss of $10,000 on its holdings of Crypto Asset B.

ABC Company disclosed the following reconciliation in the footnotes to its financial statements for the year ended 31 December 20X2:

Note: Explanations provided below in italics are for purposes of this example and would not be shown in the reconciliation and associated disclosures.

	For the year ended 31 December 20X2	
Crypto assets held:		
Beginning balance (at fair value)	$ 550,000	
Additions	210,000	*
Dispositions	(50,000)	
Gains included in net income for the period	25,000	
Losses included in net income for the period	(10,000)	
Ending balance (at fair value)	$ 725,000	

Additions are a result of receipts from customers as payments for goods provided by ABC Company, as well as crypto mining activities. Dispositions occurred as a result of payments for services received by the company. During the year ended 31 December 20X2, ABC Company had crypto asset dispositions of $50,000, which included $15,000 of cumulative realized gains.

* The additions balance of $210,000 is comprised of the $100,000 received for mining activities plus the $150,000 received as noncash consideration, less the $40,000 that was converted nearly immediately to cash. The example assumes that, in accordance with ASC 350-60-50-5, the entity elected not to include in the reconciliation disclosure crypto assets received as noncash consideration in the ordinary course of business that were converted nearly immediately into cash.

B.8 Effective date and transition

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Crypto Assets

Transition and Open Effective Date Information

350-60-65-1

The following represents the transition and effective date information related to Accounting Standards Update No. 2023-08, *Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*:

a. The pending content that links to this paragraph shall be effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued (or made available for issuance). If an entity adopts the pending content that links to this paragraph in an interim period, it must adopt the content as of the beginning of the fiscal year that includes that interim period.

b. An entity shall recognize the cumulative effect of initially applying the pending content that links to this paragraph as an adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) as of the beginning of the annual reporting period in which the entity first applies the pending content that links to this paragraph.

c. The adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) shall be calculated as the difference between the carrying amount of crypto assets as of the end of the prior annual reporting period and the **fair value** of those crypto assets as of the beginning of the annual reporting period in which the entity first applies the pending content that links to this paragraph.

C Examples — applying the qualitative impairment assessments for goodwill and indefinite-lived intangible assets

C.1 Goodwill

C.1.1 Background information

The following example illustrates how the qualitative assessment could be applied to the reporting units of a hypothetical entity (Company X).

Company X, an SEC registrant, has three reporting units (RU 1, RU 2, and RU 3) that manufacture and distribute clothing: RU 1 specializes in women's sportswear, RU 2 specializes in women's casual wear, and RU 3 specializes in men's sportswear. Company X currently sells its products to regional and national retailers in the United States.

Each of Company X's reporting units has a goodwill balance resulting from the acquisition of a competitor five years ago. Company X is a calendar year-end company and uses 1 October as its annual impairment assessment date for all of its reporting units. Company X has performed the quantitative impairment test (i.e., determined the fair value of its reporting units) in every year since initial recognition. The last such test was performed as of 1 October 20X1. Company X has never previously recorded a goodwill impairment charge.

The primary valuation method used to perform the prior quantitative impairment tests for each reporting unit has been the discounted cash flow (DCF) method. Company X also supplements its DCF analysis with implied market multiples from relevant guideline transactions that have taken place since the most recent impairment testing date.

In 20X2, Company X implemented an impairment testing policy that includes the qualitative assessment. Company X identified the drivers of fair value for each of its reporting units. Company X then evaluated whether those drivers had been affected by events and circumstances that were positive, negative or neutral (indicated by a plus symbol, minus symbol or a zero, respectively). In doing so, Company X based its analysis on the specific facts and circumstances applicable to its reporting units, designing its assessment to address the perceived sensitivity of each reporting unit to changes in fair value. Based on its facts and circumstances, Company X used its judgment to assign a weight of high, medium or low based on the estimated effect on fair value, as follows:

- High (three symbols) — estimated to have a greater than 10% effect on fair value
- Medium (two symbols) — estimated to have a 5% to 10% effect on fair value
- Low (one symbol) — estimated to have a less than 5% effect on fair value

After identifying and assigning weight to the events and circumstances that most affect the fair value of its reporting units, Company X's policy as outlined below then includes an analysis of all factors in their totality to determine whether they support a conclusion that it is not more likely than not that a reporting unit's fair value is less than its carrying amount.

C.1.2 Determine the starting point

The following provides additional information about the quantitative impairment test performed as of 1 October 20X1 for each reporting unit.

	Fair value	Carrying amount	Excess fair value ($)	Excess fair value (%)
RU 1 (women's sportswear)	$ 210,000	$ 140,000	$ 70,000	50%
RU 2 (women's casual wear)	105,000	100,000	5,000	5%
RU 3 (men's sportswear)	103,500	90,000	13,500	15%

Company X determined that the following relevant events and circumstances have occurred since the last impairment test that could affect the fair values of all three reporting units:

- The general macroeconomic trends, as indicated by the gross domestic product (GDP), show that the US economy's growth is lower than expected. The GDP growth rate for 20X2 is 2% as compared to the expected growth rate of 3%.
- The interest rate environment became riskier, resulting in slightly higher interest rates that will affect the cost of borrowing.
- Company X's industry stock index increased 7% in the current year.
- Company X's stock price and market capitalization remained relatively flat over the past year, while the average for Company X's guideline companies decreased slightly (approximately 1%). Company X's market capitalization exceeded its carrying amount by approximately 25% at 1 October 20X2.
- The prospective 20X2 financial information used in the prior year quantitative impairment tests for RU 1 and RU 3 was largely in line with actual 20X2 results through 30 September. Company X historically has had strong forecasting processes, with actual results typically falling within 5% of forecasted results.
- Company X's 20X2 earnings per share (EPS) through 30 September are above forecast at $2.35 as compared to $2.33. Prior year EPS was $2.30.
- Company X's 20X2 revenues through 30 September are slightly above forecast, primarily due to a shift in marketing and advertising efforts to the women's and men's sportswear lines.
- Sales growth for both the men's and women's sportswear was above forecasted growth of 2%, with growth of 7% and 5%, respectively. In addition to the shift in marketing focus, the men's sportswear business benefited from decreased competition in the current year due to a fire at a key competitor's warehouse.
- These increases were offset by lower-than-expected women's casual wear sales (18% below forecast), primarily due to the shift in consumer focus to sportswear.

The table below summarizes how Company X considered its starting point for applying the qualitative assessment to each of its reporting units, using the weighting described above.

Determine the starting point	RU 1 (women's sportswear)	RU 2 (women's casual wear)	RU 3 (men's sportswear)
Excess fair value	+++	+	++
Macroeconomic conditions	-	-	-
Industry-specific conditions	+	+	+
Company-specific conditions	+	---	+

Based on Company X's preliminary analysis of the starting point for each of its reporting units, it decided to use the qualitative assessment for RU 1 and RU 3 to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. This was based on the strong excess fair value in the 20X1 analysis and positive industry and company-specific events and circumstances in 20X2.

However, given the small excess fair value of RU 2 and the uncertainty of the negative evidence (e.g., Company X's decision to focus marketing efforts on sportswear over casual wear and RU 2's actual sales being 18% below forecast), Company X decided to bypass the qualitative assessment and proceed directly to determining the fair value of this reporting unit.

C.1.3 Identify the most relevant drivers of fair value

Company X performed its assessment of the most relevant drivers of fair value for its women's and men's sportswear reporting units (RU 1 and RU 3, respectively) by first looking at the method used to determine fair value for each reporting unit. The primary valuation method used to determine the fair value of RU 1 and RU 3 has been a DCF method. Under this method, Company X measures the fair value of its reporting units by estimating future cash flows for a five-year period, estimating a terminal value at the end of the five-year period and applying a discount rate to equate the cash flows (including the terminal value) to a single present value.

Based on its review of the method for determining fair value and other available information, Company X identified the following as the key assumptions used to determine the fair value for RU 1 and RU 3:

Most relevant drivers of fair value Reporting unit	Primary method for determining fair value	Relevant drivers of fair value
RU 1 (women's sportswear)	DCF method	Projected cash flows, growth rate, discount rate
RU 3 (men's sportswear)	DCF method	Projected cash flows, growth rate, discount rate

When possible, Company X supplements its DCF analysis with implied multiples from relevant guideline transactions that have taken place since the most recent impairment testing date. Although there were no such similar transactions with publicly available data since the 20X1 annual impairment test, Company X identified certain trends related to relevant guideline companies as a whole that it believed were relevant to its analysis.

As discussed above (as part of Company X's initial analysis of the starting point for each of its reporting units), Company X identified trends in its relevant guideline companies' stock prices and market capitalizations and in the overall consumer retail industry index that it included in its qualitative assessment for each of its reporting units. Further, as discussed below, Company X considered its earnings before interest and taxes (EBIT) growth for RU 1 and RU 3 relative to the relevant guideline companies.

C.1.4 Identify events and circumstances

In addition to the relevant events and circumstances applicable to all three reporting units discussed above, Company X identified the following relevant events and circumstances specific to RU 1 and RU 3 since its last quantitative impairment test that could affect the reporting unit's fair value or carrying amount.

For RU 1 (women's sportswear):

- The market in which RU 1 operates has experienced greater than expected growth due to style innovations for women's sportswear, particularly in the diversification of clothing for various niche markets, including relaxed, lighter-weight garments made for yoga and more supportive spandex garments for higher-intensity activities.
- RU 1's revenues grew by 5% (compared with expected revenue growth of 2%) due to the introduction of new product lines that capitalized on the demand in niche exercise markets.
- RU 1's EBIT grew by 8% (compared with expected EBIT growth of 4%) due to its ability to capitalize on existing processes to absorb some of the direct costs associated with the new product lines. Average EBIT growth for RU 1's guideline companies was 6% compared with expected EBIT growth of 4%.
- The product diversification in the women's sportswear market has led to increased competition as several new companies try to capitalize on the growing trend toward more innovative styles.
- Operating expenses for RU 1 increased slightly more than expected (a 4% increase compared with a 3% expected increase) primarily due to the shift in marketing dollars from casual wear to women's sportswear.

For RU 3 (men's sportswear):

- RU 3's revenues grew by 7% (compared with expected revenue growth of 2%) primarily due to a fire at a key competitor's warehouse. The key competitor began operating at full capacity again in November 20X2.
- Despite flat sales in the men's sportswear industry, competition is increasing steadily. Several new competitors entered the market in 20X2 after the fire slowed the operations of RU 3's key competitor, and some of them remain active players in the market.
- RU 3's operating expenses increased 4% (compared with expected growth of 1%), primarily due to increased production to meet demand resulting from the fire at the key competitor's warehouse. Additionally, an unexpected settlement of a lawsuit in the current year resulted in a loss to RU 3 that had a negative effect on EBIT. As a result, RU 3's EBIT grew 1%, slightly worse than forecasted growth of 2%. The lawsuit also requires an additional payment in 20X3 that is expected to reduce EBIT by 1% in that year.
- RU 3 lost a key customer in its largest foreign market in September 20X2. The loss is expected to reduce revenue and EBIT by 8% and 6%, respectively.
- Average EBIT growth in RU 3's market was in line with expectations, at 2%. No significant outliers were found among RU 3's guideline companies, with all coming in between 1% and 3% growth in EBIT.

For both RU 1 and RU 3:

- The current interest rate environment is slightly riskier than it was in the prior year.
- Both RU 1 and RU 3 use foreign distributors for certain raw materials to produce sportswear. Economic uncertainty in these foreign jurisdictions led to unexpected unfavorable changes in foreign exchange rates, which decreased margins by approximately 2%.
- There have been no significant changes in the carrying amount or composition of RU 1 or RU 3.

C.1.5 Weigh the identified events and circumstances

Company X used information in the previous step to determine the effect that each of the identified events and circumstances could have on the significant inputs used to determine the fair value of RU 1 and RU 3. The following table summarizes Company X's assessment of the effect of the identified events and circumstances on each significant input.

Weigh the identified events and circumstances			
Identified event or circumstance	**Affected key driver of fair value**	**RU 1 (women's sportswear)**	**RU 3 (men's sportswear)**
Macroeconomic events and circumstances			
Lower than expected GDP growth	‣ Growth rate ‣ Discount rate	-	-
Interest rates rising	‣ Discount rate	-	-
Foreign exchange rate increase	‣ Projected cash flows	-	-
Industry-specific events and circumstances			
Industry growth compared to expectations	‣ Growth rate	++	0
Increase in competition for sportswear	‣ Projected cash flows ‣ Growth rate	--	--
Temporary decrease in competition from a key competitor in men's sportswear due to a fire	‣ Projected cash flows	N/A	0
Entity-specific events and circumstances			
Revenue trends	‣ Growth rate ‣ Projected cash flows	++	0
Operating expense trends	‣ Projected cash flows	-	0
Loss on settlement of lawsuit	‣ Projected cash flows	N/A	-
No significant changes to carrying amount	‣ Carrying amount	0	0
Loss of key customer in foreign market	‣ Projected cash flows ‣ Growth rate	N/A	--
Other identified events and circumstances			
Excess fair value		+++	++
Decreasing stock prices and market capitalization for industry peers[C1]	‣ Growth rate	+	+
EBIT trends[C2]	‣ Projected cash flows	++	0

[C1] Although Company X uses a DCF method for determining the fair value of its reporting units, it also considered the decreasing stock prices and market capitalizations of its peer companies (which is more relevant when using a market multiple approach) in its analysis. Company X evaluated this factor as having a low positive effect on its analysis of both RU 1 and RU 3 and, therefore, gave little weight to it in its qualitative assessment.

[C2] Although Company X uses a DCF method for determining the fair value of its reporting units, it also considered the EBIT trends of its reporting units to relevant guideline companies (which is more relevant when using a market multiple approach) in its analysis. Company X evaluated this factor as having a medium positive effect on its analysis of RU 1 and weighed it accordingly in its qualitative assessment. Company X determined that this factor had a neutral effect on its analysis for RU 3 and therefore gave little weight to it in its qualitative assessment.

C.1.6 Conclude

The final step in the process is to conclude. Company X documented its conclusion for the qualitative assessment for each reporting unit separately below.

C.1.6.1 Conclude — RU 1 (women's sportswear)

Company X evaluated the relevant events and circumstances identified in its 20X2 qualitative assessment of RU 1 and weighed the evidence as documented above.

As a starting point, RU 1 had an excess fair value of 50% as of 1 October 20X1, and there were no significant changes in RU 1's carrying amount since that date. Company X's qualitative assessment identified certain events and circumstances as having a positive effect on the inputs and assumptions that most affect fair value. For example, greater-than-expected demand in the women's sportswear market led to positive financial results for RU 1. RU 1 was able to capitalize on this demand by introducing new products, which resulted in revenues growing by 5% (compared with forecasted growth of 2%) and EBIT growing by 8% (compared with forecasted growth of 4%).

Company X also identified other events and circumstances as having a negative effect on the inputs and assumptions that most affect fair value. For example, the greater-than-expected demand in women's sportswear was partially offset by the increase in competition from new companies entering this market in an attempt to capitalize on this growing demand. Further, while RU 1's operating expenses increased, this was generally consistent with expectations, since RU 1 shifted its advertising dollars from casual wear to sportswear. Finally, while the overall economy grew at a slower pace than expected leading to a slight increase in interest rates, these macroeconomic trends are not expected to have a significant effect on fair value.

Company X weighed all of the identified events and circumstances that could affect the fair value of RU 1 and determined that the events and circumstances identified as having a positive effect have a greater effect on the fair value of RU 1 than those identified as having a negative effect. In making that determination, Company X concluded that any negative events and circumstances that were not offset by positive events and circumstances could be absorbed by the strong excess fair value for RU 1 in the most recent quantitative impairment test. Based on this assessment, Company X concluded that it was not more likely than not that RU 1 was impaired and that a quantitative impairment test was not necessary.

C.1.6.2 Conclude — RU 3 (men's sportswear)

Company X evaluated the relevant events and circumstances identified in its 20X2 qualitative assessment of RU 3 and weighed the evidence as documented above.

As a starting point, RU 3 had an excess fair value of 15% as of 1 October 20X1, and there weren't any significant changes in RU 3's carrying amount since that date. Company X's qualitative assessment identified certain events and circumstances that initially appeared to have a positive effect on the inputs and assumptions that most affect fair value.

However, upon further evaluation of these events, Company X determined that that there were other industry and entity-specific events that caused it to change its preliminary assessment. For example, RU 3's revenue growth of 7% (as compared to forecasted growth of 2%) was primarily generated from an unforeseen event — the increased business due to a fire at a key competitor's warehouse. Further, it will be a challenge for Company X to achieve future growth due to the fact that its key competitor was fully operational again by November 20X2, increased competition from new entrants to the market and the loss of a key customer in September 20X2.

Company X also identified other events and circumstances as having a negative effect on the inputs and assumptions that most affect fair value. For example, the loss relating to the settlement of the lawsuit is expected to a have negative effect on EBIT in 20X3. While the overall economy grew at a slower pace than expected leading to a slight increase in interest rates, these macroeconomic trends are not expected to have a significant effect on fair value.

Company X weighed all of the identified events and circumstances that could affect the fair value of RU 3 and determined that the events and circumstances identified as having a negative effect have a greater effect on its fair value than those identified as having a positive effect, and the negative effect could not be absorbed by the excess fair value in RU 3 as of the most recent quantitative impairment test. As a result, Company X could not conclude, based on the qualitative assessment, that it was not more likely than not that the fair value of RU 3 was less than its carrying amount. Therefore, Company X proceeded to the quantitative impairment test.

C.2 Indefinite-lived intangible assets

C.2.1 Background information

The following illustrates how the five-step process could be applied to a company's indefinite-lived intangible assets.

ABC Co. is an SEC registrant that operates in the media and entertainment industry, broadcasting music, sports, entertainment and other programming. It broadcasts throughout the US, reaching viewers on local, regional and national television and radio stations in all US states and territories. ABC Co. has three indefinite-lived intangible assets: (1) the ABC Co. trade name (established when acquired in a prior business combination), (2) a license from the Federal Communications Commission (FCC) to broadcast in various US markets and (3) the cable network distribution agreements of its fully distributed, well-established cable weather network. ABC Co. acquired the weather network a few years ago and has not rebranded it with the ABC Co. name.

ABC Co. is a calendar year-end company and uses 1 October as its annual impairment assessment date for all of its indefinite-lived intangible assets. ABC Co. has performed the quantitative impairment test (i.e., determined the fair value of its indefinite-lived intangible assets) in every year since initial recognition. The last such test was performed in the prior year. ABC Co. has never recorded an impairment on any of these assets.

The primary valuation method for each asset has been a variation of the income approach. ABC Co. has historically used the relief from royalty method to value its trade name, the Greenfield method to value its FCC license and the multi-period excess earnings method (MPEEM) to value its cable network distribution asset. For illustrative purposes, the qualitative assessment of the FCC license will focus on ABC Co.'s license to broadcast in Old City, US.

In 20X2, ABC Co. implemented an impairment testing policy that includes the qualitative assessment. ABC Co. identified the significant inputs used to determine the fair value for each of its indefinite-lived intangible assets. ABC Co. then evaluated whether those significant inputs had been affected by events and circumstances that were positive, negative or neutral (indicated by a plus symbol, minus symbol or a zero, respectively). In doing so, ABC Co. based its analysis on the specific facts and circumstances applicable to its indefinite-lived intangible assets, designing its assessment to address the perceived sensitivity of each asset to changes in fair value. Based on its facts and circumstances, ABC Co. used its judgment to assign a weight of high, medium or low to each of the inputs based on the estimated effect on fair value, as follows:

- High (three symbols) — estimated to have an effect on fair value greater than 10%
- Medium (two symbols) — estimated to have an effect on fair value of 5% to 10%
- Low (one symbol) — estimated to have an effect on fair value of less than 5%

After identifying and assigning weight to the events and circumstances that most affect the fair value of its indefinite-lived intangible assets, ABC Co.'s policy as outlined below then includes an analysis of all factors in their totality to determine whether they support a conclusion that it is not more likely than not that the indefinite-lived intangible asset's fair value is less than its carrying amount.

C.2.2 Determine the starting point

The following provides additional background about ABC Co.'s indefinite-lived intangible assets as of 1 October 20X1 (the last time a quantitative impairment test was performed).

	Fair value	Carrying amount	Excess fair value ($)	Excess fair value (%)
ABC Co. trade name	$ 170,000	$ 100,000	$ 70,000	70%
FCC license	57,500	50,000	7,500	15%
Cable network distribution asset[1]	42,000	40,000	2,000	5%

[1]The cable network distribution asset represents various cable network and satellite agreements grouped into a single unit of accounting.

ABC Co. also identified the following events and circumstances since its last quantitative impairment test that could affect the significant inputs used to determine the fair value of all three of its indefinite-lived intangible assets:

- Overall economic trends have shown positive growth in the US since the last quantitative impairment test. In the past year, the relevant US stock market index is up 10%, and the broadcast industry index and fair values of ABC Co.'s peer companies have increased 8%.
- The advertising market in the US has shown positive growth in the current year, bolstered primarily by coverage of the national election.
- The FCC license is for the local market in Old City. The local economy in Old City is sluggish, trailing behind national averages. The population of Old City has also declined in the last two years as people have moved away.
- ABC Co.'s market capitalization, share price and EBITDA all increased slightly over the last year. These increases are slightly below those of ABC Co.'s peer group.
- Due to the entrance of a new competitor, ABC Co.'s cable weather network has lost advertiser support in the past year. This increased competition also cost the cable weather network a significant portion of its 15% market-share lead (now about 8%).

The table below summarizes how ABC Co. considered its starting point for applying the qualitative assessment to each of its indefinite-lived intangible assets, using the weighting described above.

Determine the starting point	ABC Co. trade name	FCC license	Cable network distribution asset
Excess fair value	+++	++	+
Macroeconomic conditions	++	+	++
Industry-specific conditions	+	-	-
Company-specific conditions	+	+	---

Based on ABC Co.'s preliminary analysis of the starting point for each of its indefinite-lived intangible assets, it decided to use the qualitative assessment for its trade name and FCC license indefinite-lived intangible assets to determine whether it is more likely than not that each asset is impaired. This was based on the strong excess fair value in the 20X1 analysis, strength in the overall economy and positive results experienced by both ABC Co. and the industry in 20X2.

However, given the small amount of excess fair value of the cable network distribution asset and the uncertainty of the negative evidence (e.g., increased competition, decline in market share), ABC Co. decided to bypass the qualitative assessment and proceed directly to determining the fair value of this asset.

C.2.3 Identify the most relevant drivers of fair value

ABC Co. performed its assessment of the most relevant drivers of fair value for its trade name and FCC license by first looking at the method used to determine fair value for each asset. Given the nature of its indefinite-lived intangible assets, ABC Co. primarily uses the following methods under the income approach to determine fair value:

- ABC Co. trade name — The company uses the relief from royalty method, measuring value based on what ABC Co. would pay in royalties to a market participant if it did not own the trade name and had to license it from a third party (i.e., the licensing costs it avoids by owning the asset).
- FCC license — The company uses the Greenfield method, measuring value based on the assumption that ABC Co. is a hypothetical startup company that begins operations on the measurement date with no assets except the license. Under this method, the forecasted cash flows assume the hypothetical ABC Co. is operating under the existing competitive situation within each market. This approach enables ABC Co. to isolate and measure the fair value of the license directly.

Based on its review of the method for determining fair value and other available information, ABC Co. identified the following as the significant inputs used to determine fair value for each of its indefinite-lived intangible assets:

Most relevant drivers of fair value		
Indefinite-lived intangible asset	**Primary method for determining fair value**	**Significant inputs used to determine fair value**
ABC Co. trade name	Relief from royalty method	Projected ABC Co. revenues, growth rate, royalty rate, discount rate
FCC license	Greenfield method	Hypothetical cash flows (e.g., revenues, costs, capital expenditures) for a new operation, growth rate, discount rate

C.2.4 Identify events and circumstances

In addition to the relevant events and circumstances applicable to all three indefinite-lived intangible assets discussed above, ABC Co. identified the following relevant events and circumstances specific to the ABC Co. trade name and FCC license since the last impairment test that could affect the significant inputs used to determine the fair value or the carrying amount of the indefinite-lived intangible assets.

For the ABC Co. trade name:

- ABC Co.'s industry grew more than anticipated (4% growth overall compared with analysts' expectations of 2%).
- ABC Co.'s revenue grew approximately 13% from the previous year, compared with expected growth of 8%. EBITDA also rose more than anticipated, 7% from the previous year compared with expected growth of 2%.
- Actual results were better than expected, primarily because of a new reality TV program that won in its time slot in all markets across the country.
- During the year, one of ABC Co.'s major competitors, XYZ Inc., licensed its trade name to another entity. The negotiated royalty rate was 5%, more than the 4% rate that ABC Co. assumed in its prior-year determination of fair value.

For the FCC license:

- A hypothetical startup company would need an initial buildup phase of five years before it would achieve a normalized level of operations. Once that is achieved, the estimated terminal growth rate under current market conditions in Old City, US, would be 3%. The prior-year quantitative impairment test assumed a 4% terminal growth rate in the Old City market.
- Advertising rates for the Old City area are down because its economic troubles and population declines have depressed consumer spending, making the market less attractive to advertisers.

For both the ABC Co. trade name and FCC license:

- The growth was driven primarily by business that relies on the ABC Co. trade name and FCC licenses. Overall results were reduced by the poor performance of the cable weather network.
- Consumer preference has shifted from traditional broadcast programming (e.g., television, radio) to digital formats (e.g., online streaming, downloads). The ABC Co. trade name has benefited (all content is available for both traditional and digital distribution), but the FCC license has been negatively affected by the shift in advertiser spending away from traditional broadcasting.
- Programming costs are increasing overall. The cost of acquiring, producing and distributing programming is expected to rise 2% from the prior year.
- The current interest rate environment is relatively consistent with the prior year.
- Global economic uncertainty has caused the gross domestic product (GDP) to lag slightly behind expectations, making the investing world less confident in companies' ability to make accurate financial forecasts. Due to uncertainty, the risk premium associated with discount rates is expected to increase.
- There have been no significant changes in the carrying amount of either indefinite-lived intangible asset.

C.2.5 Weigh the identified events and circumstances

ABC Co. used the information identified in the previous step to determine the effect that each of the identified events and circumstances could have on the significant inputs used to determine the fair value of its indefinite-lived intangible assets. The following table summarizes its assessment of the effect of the identified events and circumstances on each significant input.

Weigh the identified events and circumstances			
Identified event or circumstance	Affected significant input	ABC Co. trade name	FCC license
Macroeconomic events and circumstances			
Stagnant GDP growth (increased risk premium)	‣ Projected revenues ‣ Discount rate	-	-
Interest rates remain flat	‣ Discount rate	0	0
Positive advertising growth in the US	‣ Projected revenues	+	N/A
Industry-specific events and circumstances			
Industry growth above expectations	‣ Growth rate	+	N/A
Increase in broadcast industry index	‣ Growth rate	+	N/A
Shift to digital distribution	‣ Hypothetical cash flows for a new operation ‣ Growth rate	0	--
Entity-specific events and circumstances			
ABC Co. actual results above projections	‣ Projected revenues	++	N/A
Market transaction licensing rate higher than prior year assumption	‣ Royalty rate	+	N/A
Lower expected terminal growth rate for Old City than prior-year analysis	‣ Growth rate	N/A	--
Declining population in FCC license market	‣ Hypothetical cash flows for a new operation ‣ Discount rate	N/A	--
Increasing programming costs	‣ Hypothetical cash flows for a new operation	0	-
No change to carrying amount	‣ Carrying amount	0	0
Other events and circumstances			
Excess fair value		+++	+

C.2.6 Conclude

The final step in the process is to conclude. ABC Co. documented its conclusion for the qualitative assessment for each indefinite-lived intangible asset separately below.

C.2.6.1 Conclude — ABC Co. trade name

ABC Co. evaluated the relevant events and circumstances identified for its 20X2 qualitative assessment of its trade name and weighed the evidence as documented above.

As a starting point, the ABC Co. trade name had an excess fair value of 70% as of 1 October 20X1, and there were no significant changes in its carrying amount since that date. ABC Co.'s qualitative assessment identified certain events and circumstances as having a positive effect on the significant inputs used to determine fair value. For example, ABC Co.'s revenue growth was better than forecast (13% actual, compared with a forecast of 8%), as was its EBITDA growth (7% actual, compared with a forecast of 2%). In addition, ABC Co.'s industry grew more than expected (4% actual, compared with a forecast of 2%) and a recent market transaction provided evidence of a higher royalty rate for licenses of similar trade names than what ABC Co. had assumed in its prior-year analysis (5% royalty rate achieved as compared to ABC Co.'s previous estimates of 4%).

ABC Co. also identified other events and circumstances as having a negative effect on the significant inputs used to determine the fair value of the trade name. Specifically, ABC Co. identified the stagnant GDP growth and associated rising risk premium as negatively affecting the significant inputs used to determine the fair value of the trade name asset. Further, ABC Co. forecasts programming costs to increase 2% and interest rates to remain flat. None of these items were expected to have more than a low (i.e., 5% or less) effect on the asset's fair value. ABC Co. evaluated these items in light of the positive events and circumstances identified above to determine whether it was more likely than not that the trade name asset was impaired.

ABC Co. weighed all of the identified events and circumstances that could affect the significant inputs used to determine the fair value of its trade name. ABC Co. determined that the events and circumstances identified as having a positive effect have a greater effect on the significant inputs used to determine the fair value of the ABC Co. trade name than those identified as having a negative effect. In making that determination, ABC Co. concluded that any negative events and circumstances that were not offset by positive events and circumstances could be absorbed by the excess fair value for the ABC Co. trade name in the most recent quantitative impairment test. Based on this assessment, ABC Co. concluded that it was not more likely than not that the ABC Co. trade name was impaired and a quantitative impairment test was not necessary.

C.2.6.2 Conclude — FCC license

ABC Co. evaluated the relevant events and circumstances identified for its 20X2 qualitative assessment of its FCC license and weighed the evidence as documented above.

As a starting point, the FCC license had an excess fair value of 15% as of 1 October 20X1 and there were no significant changes in the FCC license's carrying amount since that date. ABC Co.'s qualitative assessment identified certain events and circumstances as having a negative effect on the significant inputs used to determine fair value. For example, the terminal growth rate in Old City is expected to decrease by 1%, driven by rising costs and declining population in the local market. Additionally, the shift from traditional programming to digital distribution and the increasing costs of programming are expected to have a negative effect on the significant inputs used to determine the fair value of the FCC license. These events and circumstances were expected to have a high or medium effect on fair value.

In addition to these events and circumstances, ABC Co. identified other events and circumstances as having a negative or neutral effect on the significant inputs used to determine the fair value of the FCC license. Specifically, ABC Co. identified the stagnant GDP growth and increasing programming costs as negatively affecting the significant inputs used to determine the fair value of the FCC license. ABC Co. also considered that interest rates are expected to remain flat. None of these items were expected to have more than a low (i.e., 5% or less) effect on the asset's fair value. ABC Co. evaluated these items in light of the other negative events and circumstances identified above to determine whether it was more likely than not that the trade name asset was impaired.

As indicated above, the FCC license had excess fair value of 15% in the prior year. For the FCC license to be impaired, absent other factors, the decrease in the expected terminal growth rate for Old City would have to affect the Greenfield valuation and cause the fair value of the trade name to decline by at least 15%. To isolate the effect of certain negative events and circumstances, ABC Co. performed a limited sensitivity analysis. In this analysis, ABC Co. noted that a 1% drop in the Old City terminal growth rate applied to the previous amounts used to calculate the terminal value resulted in a 5% reduction in gross cash flows, before considering the increased cost structure and shift to digital media. These changes would reduce the cash flows for the five-year projections and also result in an additional reduction to the terminal value. Since it is anticipated that the discount rate would potentially increase due to the risk and uncertainty associated with the business, the five-year projections and terminal value would be further reduced when discounted.

ABC Co. weighed all of the identified events and circumstances that could affect the significant inputs used to determine the fair value of the FCC license and determined that the events and circumstances identified as having a negative effect could not be absorbed by the excess fair value in the FCC license as of the most recent quantitative impairment test. As a result, ABC Co. could not conclude based on the qualitative assessment that it was not more likely than not that the fair value of the FCC license was less than its carrying amount. Therefore, ABC Co. proceeded to perform the quantitative impairment test (i.e., calculate the fair value of the FCC license to compare it to its carrying amount).

D Examples — accounting for intangible assets other than goodwill

The following examples are adapted from ASC 350-30-55. Each example describes an acquired intangible asset, the facts and circumstances surrounding the determination of its useful life and the subsequent accounting based on that determination. In practice, judgment will be required in making these determinations. The facts and circumstances unique to each acquired intangible asset will need to be considered.

Illustration D-1: Acquired customer list

A direct-mail marketing company acquired a customer list and expects to derive benefit from the information on the acquired customer list for at least one year but for no more than three years, with the best estimate being 18 months.

Analysis

The customer list would be amortized over 18 months, management's best estimate of its useful life, following the pattern in which the expected benefits will be consumed or otherwise used up. Although the acquiring entity may intend to add customer names and other information to the list in the future, the expected benefits of the acquired customer list relate only to the customers on that list at the date of acquisition (a closed-group notion). The customer list would be reviewed for impairment under ASC 360-10.

Illustration D-2: Acquired patent that expires in 15 years

The product protected by the patented technology is expected to be a source of cash flows for at least 15 years. The reporting entity has a commitment from a third party to purchase that patent in five years for 60% of the fair value of the patent at the date it was acquired, and the entity intends to sell the patent in five years.

Analysis

The patent would be amortized over its five-year useful life to the reporting entity following the pattern in which the expected benefits will be consumed or otherwise used up. The amount to be amortized is 40% of the patent's fair value at the acquisition date (residual value is 60%). The patent would be reviewed for impairment under ASC 360-10.

Illustration D-3: Acquired copyright that has a remaining legal life of 50 years

An analysis of consumer habits and market trends provides evidence that the copyrighted material will generate cash flows for approximately 30 more years.

Analysis

The copyright would be amortized over its 30-year estimated useful life following the pattern in which the expected benefits will be consumed or otherwise used up and reviewed for impairment under ASC 360-10.

Illustration D-4: Acquired broadcast license that expires in five years

The broadcast license is renewable every 10 years if the company provides at least an average level of service to its customers and complies with the applicable FCC rules and policies and the FCC Communications Act of 1934. The license may be renewed indefinitely at little cost and was renewed twice prior to its recent acquisition. The acquiring entity intends to renew the license indefinitely, and evidence supports its ability to do so. Historically, there has been no compelling challenge to the license renewal. The technology used in broadcasting is not expected to be replaced by another technology any time in the foreseeable future. Therefore, the cash flows from that license are expected to continue indefinitely.

Analysis

The broadcast license would be deemed to have an indefinite useful life because cash flows are expected to continue indefinitely. Therefore, the license would not be amortized until its useful life is deemed to be no longer indefinite. The license would be tested for impairment in accordance with the rules applicable to indefinite-lived intangible assets (i.e., an annual assessment of whether the asset is impaired).

Illustration D-5: Acquired broadcast license, no assumed renewal

Assume the same facts as in Illustration D-4, except that the FCC subsequently decides that it will no longer renew broadcast licenses, but rather will auction those licenses. At the time the FCC decision is made, the broadcast license has three years until it expires. The cash flows from that license are expected to continue until the license expires.

Analysis

Because the broadcast license can no longer be renewed, its useful life is no longer indefinite. Thus, the acquired license would be tested for impairment in accordance with the rules applicable to indefinite-lived intangible assets. The license would then be amortized over its remaining three-year useful life following the pattern in which the expected benefits will be consumed or otherwise used up. Because the license will be subject to amortization, in the future it would be reviewed for impairment under ASC 360-10.

Illustration D-6: Acquired airline route authority from the United States to the United Kingdom that expires in three years

The route authority may be renewed every five years, and the acquiring entity intends to comply with the applicable rules and regulations surrounding renewal. Route authority renewals are routinely granted at a minimal cost and have historically been renewed when the airline has complied with the applicable rules and regulations. The acquiring entity expects to provide service to the United Kingdom from its hub airports indefinitely and expects that the related supporting infrastructure (airport gates, slots and terminal facility leases) will remain in place at those airports for as long as it has the route authority. An analysis of demand and cash flows supports those assumptions.

Analysis

Because the facts and circumstances support the acquiring entity's ability to continue providing air service to the United Kingdom from its US hub airports indefinitely, the intangible asset related to the route authority is considered to have an indefinite useful life. Therefore, the route authority would not be amortized until its useful life is deemed to be no longer indefinite and would be tested for impairment in accordance with the rules applicable to indefinite-lived intangible assets.

Illustration D-7: Acquired trademark that is used to identify and distinguish a leading consumer product that has been a market-share leader for the past eight years

The trademark has a remaining legal life of five years, but it is renewable every 10 years at little cost. The acquiring entity intends to continuously renew the trademark, and evidence supports its ability to do so. An analysis of product life cycle studies; market, competitive and environmental trends; and brand extension opportunities provide evidence that the trademarked product will generate cash flows for the acquiring entity for an indefinite period of time.

Analysis

The trademark would be deemed to have an indefinite useful life because it is expected to contribute to cash flows indefinitely. Therefore, the trademark would not be amortized until its useful life is no longer indefinite. The trademark would be tested for impairment in accordance with the rules applicable to indefinite-lived intangible assets.

Illustration D-8: Trademark that distinguished a leading consumer product that was acquired 10 years ago

When it was acquired, the trademark was considered to have an indefinite useful life because the product was expected to generate cash flows indefinitely. During the annual impairment test of the intangible asset, the entity determines that unexpected competition has entered the market that will reduce future sales of the product. Management estimates that cash flows generated by that consumer product will be 20% less for the foreseeable future; however, management expects that the product will continue to generate cash flows indefinitely at those reduced amounts.

Analysis

As a result of the projected decrease in future cash flows, the entity determines that the estimated fair value of the trademark is less than its carrying amount, and an impairment loss is recognized. Because it is still deemed to have an indefinite useful life, the trademark would continue to not be amortized and would continue to be tested for impairment in accordance with the rules applicable to indefinite-lived intangible assets.

Illustration D-9: Trademark for a line of automobiles that was acquired several years ago in an acquisition of an automobile company

The line of automobiles had been produced by the acquired entity for 35 years with numerous new models developed under the trademark. At the acquisition date, the acquiring entity expected to continue to produce that line of automobiles, and an analysis of various economic factors indicated there was no limit to the period of time the trademark would contribute to cash flows. Because cash flows were expected to continue indefinitely, the trademark was not amortized. Management recently decided to phase out production of that automobile line over the next four years.

Analysis

Because the useful life of that acquired trademark is no longer deemed to be indefinite, the trademark would be tested for impairment in accordance with the rules applicable to indefinite-lived intangible assets. The carrying amount of the trademark after adjustment, if any, would then be amortized over its remaining four-year useful life following the pattern in which the expected benefits will be consumed or otherwise used up. Because the trademark will be subject to amortization, in the future it would be reviewed for impairment under ASC 360-10.

Illustration D-10: Acquired technology license that renews annually

An exclusive, annually renewable technology license with a third party is acquired by an entity that has made significant progress in developing next-generation technology for digital video products. The acquiring entity believes that in two years, after it has completed developing its next-generation products, the acquired technology license will be obsolete because customers will convert to the acquiring entity's products. Market participants, however, are not as advanced in their development efforts and are not aware of the acquiring entity's proprietary development efforts. Thus, those market participants would expect the technology license to be obsolete in three years. The acquiring entity determines that the fair value of the technology license utilizing three years of cash flows is $10 million, consistent with the highest and best use of the asset by market participants.

Analysis

In ASC 350-30-35-3(d), the acquiring entity would consider its own historical experience in renewing or extending similar arrangements. In this case, the acquiring entity lacks historical experience in renewing or extending similar arrangements. Therefore, it would consider the assumptions that a market participant would use consistent with the highest and best use of the technology license. However, because the acquiring entity expects to use the technology license until it becomes obsolete in two years, it must adjust the market participants' assumptions for the entity-specific factors in ASC 350-30-35-3, specifically item (a), which requires consideration of the entity's expected use of the asset. As a result, the technology license would be amortized over a two-year period. The technology license would be reviewed for impairment under ASC 360-10.

Illustration D-11: Acquired customer relationship

An insurance company acquired 50 customer relationships operating under contracts that are renewable annually. The acquiring entity determines that the fair value of the customer relationship asset is $10 million, considering assumptions (including turnover rate) that a market participant would make consistent with the highest and best use of the asset by market participants. An income approach was used to determine the fair value of the acquired customer relationship asset.

Analysis

In applying ASC 350-30-35-3, the acquiring entity would consider its own historical experience in renewing or extending similar customer relationships. In this case, the acquiring entity concludes that its customer relationships are dissimilar to the acquired customer relationships and, therefore, the acquiring entity lacks historical experience in renewing or extending similar arrangements. Accordingly, the acquiring entity considers turnover assumptions that market participants would make about the renewal or extension of the acquired customer relationships or similar arrangements. Without evidence to the contrary, the acquiring entity expects that the acquired customer relationships will be renewed or extended at the same rate as a market participant would expect, and no other factors would indicate a different useful life is appropriate. Thus, absent any other of the entity-specific factors in ASC 350-30-35-3, in determining the useful life for amortization purposes, the entity should consider the period of expected cash flows used to measure the fair value of the asset. The customer relationships would be reviewed for impairment under ASC 360-10.

Illustration D-12: Trade name held for defensive purposes

Entity A, a consumer products manufacturer, acquires an entity that sells a product that competes with one of Entity A's existing products. Entity A plans to discontinue the sale of the competing product within the next six months, but will maintain the rights to the trade name, at minimal expected cost, to prevent a competitor from using the trade name. As a result, Entity A's existing product is expected to experience an increase in market share. Entity A does not have any current plans to reintroduce the acquired trade name in the future.

Analysis

Because Entity A does not intend to actively use the acquired trade name, but intends to hold the rights to the trade name to prevent others from using it, the trade name meets the definition of a defensive intangible asset.

E Summary of important changes

The following highlights important changes to this publication since the June 2023 edition:

- Various sections were updated after guidance was removed from the FRD related to before the adoption of ASU 2017-04. The previous chapter 3A is now chapter 3, and chapter 5 was removed.
- Various sections were updated following the issuance of ASU 2023-05, which requires a joint venture to initially measure its assets and liabilities at fair value on the formation date and may result in the recognition of goodwill upon formation.
- Section 4.2.1 was updated to clarify our guidance on the disclosure of information related to reporting units with zero or negative carrying amounts.
- Appendix B was added following the issuance of ASU 2023-08. The appendix provides guidance on the initial recognition and measurement of crypto assets in accordance with ASC 350 as well as the subsequent recognition and measurement considerations for crypto assets resulting from ASU 2023-08. In addition, various sections throughout the FRD were updated related to ASU 2023-08.

F Differences between US GAAP and IFRS

Guidance	US GAAP	IFRS
Subsequent accounting for intangible assets	Intangible assets are subsequently accounted for at cost, less accumulated amortization and any impairment losses.	Intangible assets are subsequently accounted for at either: ▸ Cost less accumulated amortization and any impairment losses ▸ Fair value (if an active market exists) less accumulated amortization and any impairment loss (referred to as the revaluation model)
Qualitative impairment assessment — indefinite-lived intangible assets	Companies may first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If a company concludes that is the case, it must determine the fair value of the asset, compare it to its carrying amount and recognize an impairment charge, if any. If it concludes otherwise, it can stop.	A similar optional qualitative assessment does not exist. Each indefinite-lived intangible asset (or cash generating unit (CGU) to which it belongs) must be tested annually for impairment.
Level of assessment and recognition and measurement of an impairment loss — indefinite-lived intangible assets	*Level of Assessment for Impairment Testing* Indefinite-lived intangible assets separately recognized should be assessed for impairment individually unless they operate in concert with other indefinite-lived intangible assets as a single asset (i.e., the indefinite-lived intangible assets are essentially inseparable). Indefinite-lived intangible assets may not be combined with other assets (e.g., finite-lived intangible assets or goodwill) for purposes of an impairment test. *Recognition and Measurement of an Impairment Loss* An impairment loss is recognized for the excess of the carrying amount of the indefinite-lived intangible asset over its fair value.	*Level of Assessment for Impairment Testing* If the indefinite-lived intangible asset does not generate cash flows that are largely independent of those from other assets or groups of assets, then the indefinite-lived intangible asset should be tested for impairment as part of the CGU to which it belongs, unless certain conditions are met. *Recognition and Measurement of an Impairment Loss* An impairment loss is recognized for the excess of the carrying amount of the indefinite-lived intangible asset over its recoverable amount (higher of fair value less costs to sell and value in use).
Acquisition of an assembled workforce in an asset acquisition	An assembled workforce that is acquired as part of an asset acquisition should be recognized as an intangible asset. For intangible assets that are acquired individually or within a group of assets, the FASB observed that the assets may qualify for recognition even though neither the contractual-legal criterion or separability criterion to be an identifiable asset has been met. ASC 805 precludes the recognition of an assembled workforce as a separate acquired asset in a business combination.	An assembled workforce that is acquired as part of an asset acquisition generally is not recognized as an intangible asset because the entity usually has insufficient control over the expected future economic benefits of that assembled workforce. IFRS 3(R) precludes the recognition of an assembled workforce as a separate acquired asset in a business combination.

Guidance	US GAAP	IFRS
Assignment of goodwill	Goodwill is assigned to a reporting unit, which is an operating segment or one level below an operating segment (component).	Goodwill is allocated to a CGU or group of CGUs which represents the lowest level within the entity at which goodwill is monitored for internal management purposes and cannot be larger than an operating segment as defined in IFRS 8, *Segment Reporting*. IAS 36 defines a CGU as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.
Qualitative assessment — goodwill	Companies may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If a company concludes that is the case, it must perform the quantitative impairment test. If it concludes otherwise, it can stop.	No similar optional qualitative assessment exists. Each CGU (or group of CGUs) must be tested annually for impairment.
Method of determining and calculating impairment loss — goodwill	The reporting unit's fair value is compared with its carrying amount. If the carrying amount of the reporting unit exceeds the fair value, the entity will record an impairment loss based on the difference. The impairment loss will be limited to the amount of goodwill allocated to that reporting unit.	A one-step goodwill impairment test is performed at the CGU level. The CGU's (or group of CGUs') carrying amount, including goodwill, is compared to its recoverable amount (greater of fair value less cost to sell and value in use). Value in use is defined as the present value of the future cash flows expected to be derived from an asset or CGU. Any impairment loss (amount by which the CGU's carrying amount, including goodwill, exceeds its recoverable amount) is allocated first to reduce goodwill to zero, then, subject to certain limitations, the carrying amount of other assets in the CGU is reduced pro rata based on the carrying amount of each asset.
Impairment of goodwill recognized in an acquisition of less than 100% of the acquiree	In a business combination, ASC 805 requires entities to measure noncontrolling interest at fair value. When a noncontrolling interest exists in the reporting unit, any goodwill impairment loss is allocated to the controlling and noncontrolling interest on a rational basis.	IFRS 3(R) permits an acquirer to measure the noncontrolling interest components that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net asset in the event of liquidation either at fair value, including goodwill, or at the noncontrolling interest's proportionate share of the fair value of the acquiree's identifiable net assets, exclusive of goodwill. All other components of noncontrolling interest are measured at fair value unless another measurement basis is required by IFRS. *Noncontrolling interest measured at fair value* When a noncontrolling interest exists in the CGU, any goodwill impairment loss is allocated to the controlling and noncontrolling interest either on a rational basis or on the same basis as that on which profit or loss is allocated (generally based on relative ownership interests).

Guidance	US GAAP	IFRS
		Noncontrolling interest measured at its share of the fair value of the acquiree's net identifiable assets The recoverable amount of the CGU includes goodwill attributable to both the controlling and noncontrolling interests. However, because the entity measured noncontrolling interest at its share of the fair value of the acquiree's net identifiable assets, the carrying amount of the CGU includes goodwill attributable only to the controlling interest. Therefore, the carrying amount of the goodwill allocated to the CGU is grossed up to include the goodwill attributable to the noncontrolling interest. The adjusted carrying amount of the CGU is then compared to the recoverable amount to determine whether the CGU is impaired. Any goodwill impairment loss is allocated to the controlling and noncontrolling interest either on a rational basis or on the same basis as that on which profit or loss is allocated (generally based on relative ownership interests). However, because goodwill is recognized only to the extent of the controlling interest, only the goodwill impairment loss allocated to the controlling interest is recognized.
Goodwill amortization accounting alternative for private companies and NFPs	Eligible private companies and NFPs may elect to apply the goodwill amortization accounting alternative for the subsequent measurement, derecognition, presentation and disclosure of goodwill. The goodwill amortization accounting alternative requires goodwill to be amortized and the use of a simplified one-step impairment test.	A similar accounting alternative does not exist.[42]
Goodwill triggering event evaluation accounting alternative for private companies and NFPs	Eligible private companies and NFPs that elect the goodwill triggering event evaluation accounting alternative are required to evaluate goodwill for impairment only as of their annual reporting date or interim reporting date, if they report more frequently.	A similar accounting alternative does not exist.
Reversal of loss	Reversal of impairment losses is not permitted (except for assets held for sale).	Reversal of impairment losses is required if the recoverable amount increases, except for goodwill.

[42] IFRS reporters that apply IFRS for Small and Medium-Sized Entities are required to amortize goodwill.

G Abbreviations used in this publication

Abbreviation	FASB Accounting Standards Codification
ASC 205	FASB ASC Topic 205, *Presentation of Financial Statements*
ASC 210	FASB ASC Topic 210, *Balance Sheet*
ASC 230	FASB ASC Topic 230, *Statement of Cash Flows*
ASC 235	FASB ASC Topic 235, *Notes to Financial Statements*
ASC 250	FASB ASC Topic 250, *Accounting Changes and Error Corrections*
ASC 280	FASB ASC Topic 280, *Segment Reporting*
ASC 323	FASB ASC Topic 323, *Investments — Equity Method and Joint Ventures*
ASC 350	FASB ASC Topic 350, *Intangibles — Goodwill and Other*
ASC 360	FASB ASC Topic 360, *Property, Plant, and Equipment*
ASC 450	FASB ASC Topic 450, *Contingencies*
ASC 606	FASB ASC Topic 606, *Revenue from Contracts with Customers*
ASC 610	FASB ASC Topic 610, *Other Income*
ASC 730	FASB ASC Topic 730, *Research and Development*
ASC 740	FASB ASC Topic 740, *Income Taxes*
ASC 805	FASB ASC Topic 805, *Business Combinations*
ASC 810	FASB ASC Topic 810, *Consolidation*
ASC 820	FASB ASC Topic 820, *Fair Value Measurement*
ASC 830	FASB ASC Topic 830, *Foreign Currency Matters*
ASC 842	FASB ASC Topic 842, *Leases*
ASC 845	FASB ASC Topic 845, *Nonmonetary Transactions*
ASC 852	FASB ASC Topic 852, *Reorganizations*
ASC 926	FASB ASC Topic 926, *Entertainment — Films*
ASC 940	FASB ASC Topic 940, *Financial Services — Brokers and Dealers*
ASC 944	FASB ASC Topic 944, *Financial Services — Insurance*
ASC 946	FASB ASC Topic 946, *Financial Services — Investment Companies*
ASC 958	FASB ASC Topic 958, *Not-for-Profit Entities*

Abbreviation	Other Authoritative Standards
ASU 2010-28	Accounting Standards Update, *Intangibles — Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (a consensus of the Emerging Issues Task Force)*
ASU 2011-08	Accounting Standards Update, *Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment*
ASU 2014-02	Accounting Standards Update, *Intangibles — Goodwill and Other (Topic 350): Accounting for Goodwill (a consensus of the Private Company Council)*
ASU 2017-04	Accounting Standards Update, *Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*
ASU 2019-10	Accounting Standards Update, *Financial Instruments — Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates*
ASU 2021-03	Accounting Standards Update, *Intangibles — Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*
ASU 2023-05	Accounting Standards Update, *Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*
ASU 2023-08	Accounting Standards Update, *Intangibles – Goodwill and Other – Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets*
CON 8.4	Chapter 4, *Elements of Financial Statements*, of FASB Statement of Financial Accounting Concepts No. 8, *Conceptual Framework for Financial Reporting*
IAS 36	International Accounting Standard No. 36, *Impairment of Assets*
IFRS 3(R)	International Financial Reporting Standard No. 3(R), *Business Combinations*
IFRS 8	International Financial Reporting Standard No. 8, *Operating Segments*
Regulation S-X	SEC Regulation S-X, *Form and content of and requirements for financial statements*
Rule 5-02	Balance sheets

Abbreviation	Other Non-Authoritative Standards
APB 16	APB Opinion No. 16, *Business Combinations*
EITF 02-7	EITF Issue No. 02-7, *Unit of Accounting for Testing Impairment of Indefinite-Lived Intangible Assets*
EITF 08-7	EITF Issue No. 08-7, *Accounting for Defensive Intangible Assets*
EITF D-101	EITF Issue No. D-101, *Clarification of Reporting Unit Guidance in Paragraph 30 of FASB Statement No. 142*
Statement 141	FASB Statement No. 141, *Business Combinations*
Statement 141(R)	FASB Statement No. 141(R), *Business Combinations*
Statement 142 and SFAS 142	FASB Statement No. 142, *Goodwill and Other Intangible Assets*

H Glossary

This appendix includes a list of terms defined in the Master Glossary of ASC 350 (shown as an excerpt from the ASC), followed by a list of additional terms defined in other sections of the ASC Master Glossary and used in this publication. Note that if a defined term is repeated in more than one Subtopic of ASC 350, it is listed below only in the first Subtopic in which it appears as a defined term. For example, "Acquiree" is included in the Glossary section of Subtopics 350-10, 350-20 and 350-30, but is listed only in the 350-10-20 section below. Subtopics 350-40 and 350-50 are not discussed in this publication and therefore not included in this appendix.

Excerpt from Accounting Standards Codification

Intangibles — Goodwill and Other — Overall

Glossary

350-10-20

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer's financial statements. When applicable guidance in Topic 805 is applied by a not-for-profit entity, the term business combination has the same meaning as this term has for a for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

Business

Paragraphs 805-10-55-3A through 55-6 and 805-10-55-8 through 55-9 define what is considered a business.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a business combination or an acquisition by a not-for-profit entity that are not individually identified and separately recognized. For ease of reference, this term also includes the immediate charge recognized by not-for-profit entities in accordance with paragraph 958-805-25-29.

Pending Content:

Transition Date: *(P) January 1, 2025; (N) January 1, 2025* | **Transition Guidance:** 805-60-65-1

Goodwill

An asset representing the future economic benefits arising from other assets acquired in a business combination, acquired in an acquisition by a not-for-profit entity, or recognized by a joint venture upon formation that are not individually identified and separately recognized. For ease of reference, this term also includes the immediate charge recognized by not-for-profit entities in accordance with paragraph 958-805-25-29.

Intangible Assets

Assets (not including financial assets) that lack physical substance. (The term intangible assets is used to refer to intangible assets other than goodwill.)

Mutual Entity

An entity other than an investor-owned entity that provides dividends, lower costs, or other economic benefits directly and proportionately to its owners, members, or participants. Mutual insurance entities, credit unions, and farm and rural electric cooperatives are examples of mutual entities.

Nonprofit Activity

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit business entity.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Intangibles — Goodwill and Other — Goodwill

Glossary

350-20-20

Business Combination

A transaction or other event in which an acquirer obtains control of one or more businesses. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also **Acquisition by a Not-for-Profit Entity**.

Noncontrolling Interest

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

Operating Segment

A component of a public entity. See Section 280-10-50 for additional guidance on the definition of an operating segment.

Private Company

An entity other than a public business entity, a not-for-profit entity, or an employee benefit plan within the scope of Topics 960 through 965 on plan accounting.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Reporting Unit

The level of reporting at which goodwill is tested for impairment. A reporting unit is an operating segment or one level below an operating segment (also known as a component).

Securities and Exchange Commission (SEC) Filer

An entity that is required to file or furnish its financial statements with either of the following:

a. The Securities and Exchange Commission (SEC)

b. With respect to an entity subject to Section 12(i) of the Securities Exchange Act of 1934, as amended, the appropriate agency under that Section.

Financial statements for other entities that are not otherwise SEC filers whose financial statements are included in a submission by another SEC filer are not included within this definition.

Intangibles — Goodwill and Other — Intangible Assets Other Than Goodwill

Glossary

350-30-20

Acquiree

The business or businesses that the acquirer obtains control of in a business combination. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an acquisition by a not-for-profit entity.

Acquirer

The entity that obtains control of the acquiree. However, in a business combination in which a variable interest entity (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

Conduit Debt Securities

Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing financing for a specific third party (the conduit bond obligor) that is not a part of the state or local government's financial reporting entity. Although conduit debt securities bear the name of the governmental entity that issues them, the governmental entity often has no obligation for such debt beyond the resources provided by a lease or loan agreement with the third party on whose behalf the securities are issued. Further, the conduit bond obligor is responsible for any future financial reporting requirements.

Defensive Intangible Asset

An acquired intangible asset in a situation in which an entity does not intend to actively use the asset but intends to hold (lock up) the asset to prevent others from obtaining access to the asset.

Intangible Asset Class

A group of intangible assets that are similar, either by their nature or by their use in the operations of an entity.

Lease

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Legal Entity

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

Nonpublic Entity

Any entity that does not meet any of the following conditions:

a. Its debt or equity securities trade in a public market either on a stock exchange (domestic or foreign) or in an over-the-counter market, including securities quoted only locally or regionally.

b. It is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).

c. It files with a regulatory agency in preparation for the sale of any class of debt or equity securities in a public market.

d. It is required to file or furnish financial statements with the Securities and Exchange Commission.

e. It is controlled by an entity covered by criteria (a) through (d).

Residual Value

The estimated fair value of an intangible asset at the end of its useful life to an entity, less any disposal costs.

Useful Life

The period over which an asset is expected to contribute directly or indirectly to future cash flows.

Variable Interest Entity

A legal entity subject to consolidation according to the provisions of the Variable Interest Entities Subsections of Subtopic 810-10.

Intangibles — Goodwill and Other — Crypto Assets

Glossary

350-60-20

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between **market participants** at the measurement date.

In addition to the terms defined in the Master Glossary of ASC 350, the following terms are defined in the following manner elsewhere in the ASC Master Glossary:

Excerpt from Accounting Standards Codification

Statement of Cash Flows — Overall

Glossary

230-10-20

Financial Asset

Cash, evidence of an ownership interest in an entity, or a contract that conveys to one entity a right to do either of the following:

a. Receive cash or another financial instrument from a second entity

b. Exchange other financial instruments on potentially favorable terms with the second entity.

Segment Reporting — Overall

Glossary

280-10-20

Public Entity

A business entity or a not-for-profit entity that meets any of the following conditions:

a. It has issued debt or equity securities or is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets).

b. It is required to file financial statements with the Securities and Exchange Commission (SEC).

c. It provides financial statements for the purpose of issuing any class of securities in a public market.

Property, plant, and equipment — Overall

Glossary

360-10-20

Asset Group

An asset group is the unit of accounting for a long-lived asset or assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

Research and Development — Overall

Glossary

730-10-20

Research and Development

Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service (referred to as product) or a new process or technique (referred to as process) or in bringing about a significant improvement to an existing product or process.

Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants.

Income Taxes — Overall

Glossary

740-10-20

Deferred Tax Asset

The deferred tax consequences attributable to deductible temporary differences and carryforwards. A deferred tax asset is measured using the applicable enacted tax rate and provisions of the enacted tax law. A deferred tax asset is reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Deferred Tax Liability

The deferred tax consequences attributable to taxable temporary differences. A deferred tax liability is measured using the applicable enacted tax rate and provisions of the enacted tax law.

Fair Value Measurement — Overall

Glossary

820-10-20

Income Approach

Valuation approaches that convert future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

Market Participants

Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

a. They are independent of each other, that is, they are not related parties, although the price in a related-party transaction may be used as an input to a fair value measurement if the reporting entity has evidence that the transaction was entered into at market terms

b. They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary

c. They are able to enter into a transaction for the asset or liability

d. They are willing to enter into a transaction for the asset or liability, that is, they are motivated but not forced or otherwise compelled to do so.

Unit of Account

The level at which an asset or a liability is aggregated or disaggregated in a Topic for recognition purposes.

Foreign Currency Matters - Overall

Glossary

830-10-20

Functional Currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash. (See paragraphs 830-10-45-2 through 45-6 and 830-10-55-3 through 55-7.)

Foreign Currency

A currency other than the functional currency of the entity being referred to (for example, the dollar could be a foreign currency for a foreign entity). Composites of currencies, such as the **Special Drawing Rights**, used to set prices or denominate amounts of loans, and so forth, have the characteristics of foreign currency.

Reorganizations — Overall

Glossary

852-10-20

Reorganization Value

The value attributed to the reconstituted entity, as well as the expected net realizable value of those assets that will be disposed of before reconstitution occurs. Therefore, this value is viewed as the value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets of the entity immediately after the restructuring.

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