FASB Simplifies Goodwill Impairment Test

Tips

The Financial Accounting Standards Board has recently issued guidance to simplify the accounting for goodwill impairment with ASU 2017-04. Under the new guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

ASU 2017-04 eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment; however an entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. Entities still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.

Entities should also consider the income tax effect from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss as goodwill amortization is deductible for tax purposes in certain jurisdictions. For example, if an entity recognizes an impairment charge this may increase a deferred tax asset or decrease a deferred tax liability. Since this could result in another impairment charge, ASU 2017-14 requires an entity to calculate the impairment charge and the deferred tax effect using an equations method that is similar to how an entity measures goodwill and related deferred tax assets in a business combination.

ASU 2017-14 also includes amendments to the Overview and Background Sections of the Codification in an effort to improve this guidance.

Effective Date and Adoption

A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in ASU 2017-14 for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments in ASU 2017-14 for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020.

All other entities, including not-for-profit entities that are adopting the amendments of the new guidance should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

Ask Our Experts

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