

In brief

The latest news in financial reporting



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At a glance

Under new FASB guidance, goodwill impairment will represent the excess of a reporting unit's carrying amount over its fair value.

FASB simplifies measurement of goodwill impairment

What happened?

On January 26, 2017, the FASB issued guidance¹ to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill.

All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary.

The same one-step impairment test will be applied to goodwill at all reporting units, even those with zero or negative carrying amounts. Entities will be required to disclose the amount of goodwill at reporting units with zero or negative carrying amounts.

Why is this important?

The new guidance will simplify financial reporting because it eliminates the need to determine the fair value of individual assets and liabilities of a reporting unit to measure the goodwill impairment. The new guidance may result in more or less impairment being recognized than today. For example, a reporting entity with significant unrecognized or appreciated assets may recognize a smaller goodwill impairment than today whereas a larger impairment may result if long-lived assets have carrying amounts in excess of fair value. In addition, failing Step 1 may not result in impairment today. However, under the revised guidance, failing Step 1 will always result in a goodwill impairment.

The revised guidance will be more similar to IFRS, which also has a single-step goodwill impairment test. However, other differences (e.g., the unit of account) will remain.

What's next?

The revised guidance will be applied prospectively, and is effective for calendar year-end SEC filers in 2020. Other public business entities will have an additional year. All other entities that have not elected the private company goodwill alternative are required to adopt in 2022. Special transition guidance is provided for private companies that have elected the private company goodwill alternative.

Early adoption is permitted for any impairment tests performed after January 1, 2017.

¹ Accounting Standards Update No: 2017-04, Intangibles – Goodwill and Other (Topic 350): *Simplifying the Accounting for Goodwill Impairment*.

Questions?

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