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Audit Alert: Accounting for goodwill impairment

The FASB [met](met) on October 10 to consider comments received on two proposed ASUs. The Board also made the following tentative decisions:

Impairment test- The proposed guidance would remove Step 2 of the existing goodwill impairment test rather than allowing Step 2 as an option. In addition, the Board tentatively decided to: • Include guidance on the deferred tax effects of tax-deductible goodwill on the impairment charge • Supersede the existing guidance in ASC 350-20-35, Intangibles – Goodwill and Other: Goodwill, related to circumstances in which the impairment test is not complete at the reporting date • Clarify that an entity should not allocate to a reporting unit the foreign currency–translation adjustments reported in accumulated other comprehensive income.

Reporting units with zero or negative carrying amounts-Under the proposal, an entity would apply the same one-step impairment test to all reporting units, including those with zero or negative carrying amounts, and would be required to disclose the amount of goodwill allocated to such reporting units. The Board tentatively decided not to require any additional disclosures about reporting units with zero or negative carrying amounts.

Fair value-The Board tentatively decided to retain the existing fair value guidance on assuming a taxable versus a non-taxable transaction in ASC 350, as modified in the proposed guidance to reflect the change to a one-step impairment test.

Effective date and transition The effective date for the proposed amendments would be the same as those for ASU 2016-13, Measurement of Credit Losses on Financial Instruments, *with early adoption permitted for all entities as of January 1, 2017*: • For public business entities that are SEC filers: Annual periods, including interim periods therein, *beginning after December 15, 2019* • For public business entities that are not SEC filers: Annual periods, including interim periods therein, *beginning after December 15, 2020* • For all other entities: Annual periods *beginning after December 15, 2020 and interim periods in annual periods beginning after December 15, 2021.*

Private companies that have elected the private company alternative on the subsequent accounting for goodwill, but have not yet adopted the private company alternative on accounting for certain intangible assets, would be allowed to change their accounting to the proposed guidance without justifying that the new guidance is preferable. The proposed guidance would be applied on a prospective basis. The Board directed the staff to draft a pre-ballot draft of an ASU for Board and external review.

Source: Grant Thornton, On the Horizon, October 20, 2016

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Contact us
For assistance in this matter, please contact us via
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November 11, 2016

 August 5, 2013