

FASB SIMPLIFIES GUIDANCE FOR TESTING GOODWILL FOR IMPAIRMENT - ACCOUNTING STANDARDS UPDATE (ASU) No. 2011-08, INTANGIBLES—GOODWILL AND OTHER (TOPIC 350)

FASB has issued Accounting Standards Update (ASU) no. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. The scope of the update is limited to how an entity tests goodwill for impairment, and it does not change the recognition and measurement of goodwill or a goodwill impairment loss. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years **beginning after December 15, 2011 with an option of early adoption** and are applicable to **all entities**, both public and nonpublic, that have goodwill reported in their financial statements.

Major changes after the application of provisions of this ASU are summarized below.

1. **Assessment of qualitative factors** – Unlike the previous provision where an entity has to perform two step test to identify and determining goodwill impairment, this ASU **gives an option** to an entity to first assess qualitative factors to determine whether it is **more likely than not** (i.e. having a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350.

It also gives option to entity to bypass the qualitative assessment for **any reporting unit in any period** and proceed directly to performing the first step of the two-step goodwill impairment test (except in the circumstance where a reporting unit has a carrying amount that is zero or negative). Even though an entity bypasses the qualitative assessment for any reporting unit in any period, it may resume performing the qualitative assessment in any subsequent period.

The amendments also includes examples of events and circumstances (which supersede the previous examples) that an entity should consider while performing qualitative test of goodwill impairment.

2. **Reporting unit with zero or negative carrying amount**

The amendments improve the examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should consider in determining whether to measure an impairment loss, if any, under the **second step** of the goodwill impairment test. An entity having a reporting unit with a zero or negative carrying amount would not perform Step 1 of the test.

3. **Carrying forward of reporting unit fair value**

As opposed to the old provision, an entity no longer is permitted to carry forward its detailed calculation of a reporting unit's fair value from a prior year as previously permitted by paragraph 350-20-35-29.

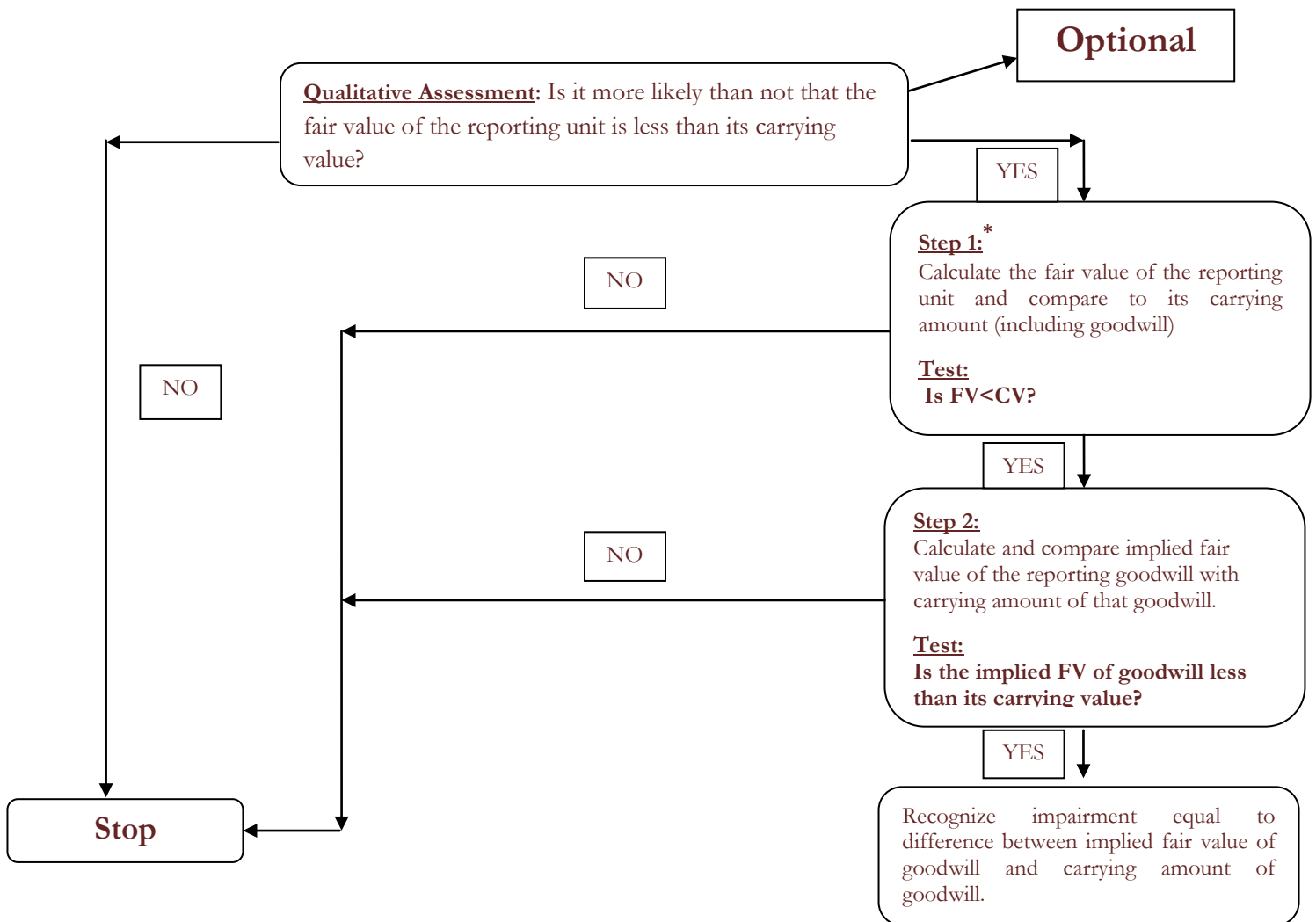
4. **Other indefinite lived intangible assets**

The amendments do not change the current guidance for testing other indefinite lived intangible assets for impairment.

Comparison between ASC 350 (Old provisions), ASC 350 (as amended with ASU)

| # | Provisions | ASC 350 (old provision) | ASC 350 (as amended with ASU) |
|---|--|--|--|
| 1 | Qualitative assessment before performing goodwill impairment test | Not allowed | Allowed |
| 2 | Carrying forward of reporting unit fair value | Allowed only if all the specified conditions are met | Not allowed |
| 3 | Reporting unit with zero or negative carrying amount | Second step of impairment is not required since it passes the first step | 2nd step of the impairment test shall be performed if it is more likely than not that a goodwill impairment exists |

Goodwill impairment process after adoption of ASU 2011-08



* An entity having a reporting unit with a zero or negative carrying amount would not perform Step 1 of the goodwill impairment test.

Source: Summarized from an article "FASB Accounting Standards Update - No.2011-08 Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment"

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