



BLUEPRINT: A BDO SERIES

Impairments under ASC 350 and ASC 360

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Introduction

Accounting for intangible assets, goodwill, and other long-lived assets can be challenging. Although they are similar (most notably that they each provide benefits for more than one period), there are also important differences.

For example, many long-lived assets, such as property, plant, and equipment (PP&E), are tangible, while others lack physical substance (intangible assets). Tangible assets and most intangible assets have estimable useful lives, but some intangible assets and goodwill provide benefits for an indefinite period. Additionally, goodwill is not a separately identifiable asset; rather, it is an asset representing the future economic benefits that are not directly attributable to other identifiable assets.

Because of these differences, the accounting varies for each type of asset.

This Blueprint focuses on the impairment tests for indefinite-lived intangible assets, long-lived assets, and goodwill, which are codified in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350, *Intangibles – Goodwill and Other*, and ASC 360, *Property, Plant, and Equipment*. This Blueprint also includes interpretive guidance, examples, and insights for applying ASC 350 and ASC 360.

IMPAIRMENTS: IN A NUTSHELL

The impairment models addressed in this Blueprint are summarized in the following table.

ASSET	IMPAIRMENT TEST	UNIT OF ACCOUNT	FREQUENCY	MEASUREMENT
Indefinite-lived intangible assets (Chapter 2)	▶ Optional qualitative assessment ▶ One-step quantitative test	Typically, single asset	Annual and upon triggering event	Fair value of the asset
Long-lived assets (tangible assets and finite-lived intangible assets) (Chapter 3)	Two-step quantitative test	Asset group	Upon triggering event	▶ Step 1: Undiscounted cash flows of the asset group ▶ Step 2: Fair value of the asset group
Goodwill (Chapter 4)	▶ Optional qualitative assessment ▶ One-step quantitative test	Reporting unit	Annual and upon triggering event	Fair value of the reporting unit

ASC 350 INTANGIBLE ASSETS

Intangible assets are assets that lack physical substance. However, the term does not include financial assets or goodwill.¹ Intangible assets are initially recognized when they are acquired, typically in a business combination or an asset acquisition. Internally generated intangible assets are typically not recognized (except for certain software development costs — see BDO’s Blueprint, [Accounting for Software Costs](#)). Instead, costs of internally generated intangible assets are expensed as incurred.

When an entity recognizes an intangible asset, it must determine how long the asset is expected to contribute to the entity’s future cash flows. If the period of benefit can be estimated, the intangible asset is considered finite-lived and is amortized over its estimated useful life. However, if there are no factors that limit the useful life of an intangible asset, it is considered indefinite-lived, and it is not amortized. Indefinite-lived intangible assets must be tested for impairment annually and in response to triggering events (changes in circumstances that indicate a potential impairment). An indefinite-lived intangible asset is impaired if its fair value is less than its carrying amount.

The unit of account for testing indefinite-lived intangible assets for impairment is typically the individual asset. However, if multiple indefinite-lived intangible assets are operated as a single asset and are essentially inseparable from one another, ASC 350 requires them to be combined into a single unit of account for impairment testing.

At the annual impairment testing date, an entity has the option to perform a qualitative assessment (sometimes referred to as “Step 0”) to determine whether it is more-likely-than-not that the indefinite-lived intangible asset is impaired. If the qualitative assessment demonstrates that impairment is unlikely, the quantitative impairment test is not required. An entity is not required to perform the qualitative assessment but can elect to bypass Step 0 and go straight to the quantitative test.



The quantitative impairment test is a one-step test that compares the fair value of the indefinite-lived intangible asset to its carrying amount:

- ▶ If the fair value exceeds the carrying amount, no impairment exists.
- ▶ If the carrying amount exceeds fair value, the difference is recognized as an impairment. Once an impairment has been recognized, the adjusted basis of the asset becomes its new carrying amount, and subsequent reversals are not recognized.

Carrying amount	—	Fair value	=	Impairment
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See Chapter 2 for further discussion.

The guidance for impairment testing in ASC 350 does not apply to finite-lived intangible assets, which are tested for impairment with other long-lived assets in the scope of ASC 360 (see Chapter 3).

¹ Unless otherwise noted, this Blueprint uses the term “intangible assets” to refer to intangible assets that are in the scope of ASC 350 (see Section 1.2).

ASC 360 LONG-LIVED ASSETS (HELD AND USED)

Long-lived assets include PP&E and finite-lived intangible assets that are depreciated or amortized. Because these assets are depreciated or amortized, they are less likely to become impaired. Therefore, there is no annual impairment test. Instead, long-lived assets are only tested for impairment if events or changes in circumstances indicate that their carrying amounts may not be recoverable. Upon such an event or change in circumstance, the entity performs a two-step impairment test. First, it assesses whether the carrying amount of an asset (asset group) is recoverable;² second, if the carrying amount is not recoverable, the entity separately measures the impairment.

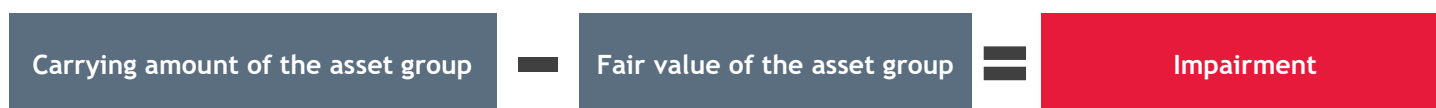
For impairment testing, ASC 360 requires a long-lived asset to be grouped with other assets and liabilities at the lowest level for which cash flows are largely independent of the cash flows of other assets and liabilities. That is, the unit of account for impairment testing is typically the **asset group**.



To assess whether the carrying amount of an asset (asset group) is recoverable, an entity compares the carrying amount with the undiscounted cash flows expected from the asset group's use and eventual disposal. If the undiscounted future cash flows of the asset group exceed its carrying amount, the asset group is recoverable, and no impairment is recognized.



If the carrying amount of the asset group is not recoverable based on the undiscounted future cash flows (Step 1), the entity measures the impairment (Step 2) by subtracting the or asset group's fair value from its carrying amount.



The impairment is allocated to the long-lived assets in the asset group. If an impairment is recognized, the adjusted carrying amount of each impaired asset becomes the new cost basis, which must be depreciated or amortized over the asset's remaining useful life.

See Section 3.2 for further discussion.

ASC 360 LONG-LIVED ASSETS (HELD FOR SALE)

Assets held for sale are accounted for differently than assets that are held and used by an entity. If an asset meets the held-for-sale criteria, it is no longer depreciated or amortized. Additionally, an asset or disposal group³ that is held for sale is no longer subject to impairment testing. Instead, the asset or disposal group is remeasured as the lower of (i) its carrying amount or (ii) its fair value less costs to sell, in the period it meets the held-for-sale criteria.

Subsequently, the carrying amount of an asset or disposal group that is held for sale is remeasured each reporting period if there are changes in the estimated fair value less costs to sell. Adjustments are made for both positive and negative changes, so the asset or disposal group continuously reflects the lower of its carrying amount (when it was initially classified as held-for-sale) and the current estimate of fair value less costs to sell. (However, an entity cannot recognize gains in excess of the losses previously recognized.) The changes in carrying amount are reflected as gains or

² If long-lived assets are recoverable under Step 1 of the impairment test, Step 2 is not performed; therefore, no impairment is recognized.

³ If a group of assets will be disposed of together, the unit of account is a disposal group.

losses in the income statement. An asset or disposal group is classified as held-for-sale in the period when all the following criteria are met:

- ▶ Management, having the authority to approve the action, commits to a plan to sell the asset or disposal group.
- ▶ The asset or disposal group is available for immediate sale in its present condition, subject only to terms that are usual and customary for sales of such assets or disposal groups.
- ▶ An active program to locate a buyer and other actions required to complete the plan to sell the asset or disposal group have been initiated.
- ▶ The sale of the asset or disposal group is probable, and transfer of the asset or disposal group is expected to qualify for recognition as a completed sale, within one year (except as discussed in Section 3.3.2.4).
- ▶ The asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
- ▶ Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

See Section 3.3 for further discussion.

ASC 350 GOODWILL

ASC 350 defines goodwill as “an asset representing the future economic benefits arising from other assets acquired in a business combination ... that are not individually identified and separately recognized.” Goodwill can arise in the following transactions:

- ▶ Business combinations (and not-for-profit acquisitions)
- ▶ Pushdown accounting
- ▶ Fresh-start reporting
- ▶ Joint venture formations
- ▶ Equity method investments

Upon initial recognition, goodwill is assigned to one or more reporting units. A reporting unit is the unit of account for testing goodwill for impairment. ASC 350 defines a reporting unit as either an operating segment or one level below an operating segment (also known as a component). See Chapter 2 in BDO’s Blueprint, [Segment Reporting Under ASC 280](#), for guidance on identifying operating segments.

Goodwill is not amortized (unless the private company alternative⁴ is elected). Rather, an entity must test goodwill for impairment annually and in response to triggering events (changes in circumstances that indicate a potential impairment). A goodwill impairment exists when the reporting unit’s fair value is less than its carrying amount.

At the annual impairment testing date, an entity has the option to perform a qualitative assessment (sometimes referred to as “Step 0”) to determine whether it is more-likely-than-not that goodwill is impaired. If the qualitative assessment demonstrates that impairment is unlikely, the quantitative impairment test is not required. An entity is not required to perform the qualitative assessment but can elect to bypass Step 0 and go straight to the quantitative test.



The quantitative goodwill impairment test is a one-step test that compares the fair value of a reporting unit to its carrying amount:

- ▶ If the fair value exceeds the carrying amount, no impairment exists.
- ▶ If the carrying amount exceeds fair value, the difference is recognized as an impairment. However, the impairment is limited to the total goodwill allocated to the reporting unit. Once an impairment has been recognized, the adjusted basis of the goodwill becomes its new carrying amount, and subsequent reversals are not allowed.

⁴ See Chapter 5 for a discussion of the private company alternatives for goodwill and intangible assets.

Carrying amount

—

Fair value

=

Impairment (limited to the total goodwill allocated to the reporting unit)

See Chapter 4 for further discussion.

ACCOUNTING ALTERNATIVES FOR PRIVATE COMPANIES AND NOT-FOR-PROFIT ENTITIES

U.S. GAAP provides private companies and not-for-profit (NFP) entities several accounting alternatives related to goodwill and intangible assets that arise from business combinations (and NFP acquisitions) in accordance with ASC 805, *Business Combinations*; the initial accounting by joint ventures in accordance with ASC 805-60, *Business Combinations – Joint Venture Formations*; or fresh-start accounting in accordance with ASC 852, *Reorganizations*. These accounting alternatives are meant to simplify the accounting for goodwill and intangible assets and may provide relief for entities that elect them. The following accounting alternatives are available:

Goodwill	▶ Amortization of goodwill on a straight-line basis over 10 years (or less than 10 years if the entity demonstrates that another useful life is more appropriate)	Section 5.3
	▶ Evaluation of goodwill impairment triggering events only as of the end of each reporting period, whether the reporting period is an interim or annual period	Section 5.4
Intangible assets	▶ Non-separation of specific customer-related intangible assets and noncompetition agreements from goodwill (an acquirer must continue to identify and measure other intangible assets separately from goodwill)	Section 5.5

The goodwill accounting alternatives can be elected independently, meaning that an entity which qualifies for these elections can apply either or both. Furthermore, an entity that elects either or both goodwill accounting alternatives is not required to elect the intangible assets accounting alternative. However, an entity that elects the intangible assets accounting alternative must also adopt the accounting alternative for amortizing goodwill to prevent subsuming finite-lived intangible assets into indefinite-lived goodwill.

Entities that qualify for these accounting alternatives do not need to perform a preferability assessment the first time they elect the alternatives; however, any subsequent changes in accounting policy would need to be preferable, in accordance with ASC 250, *Accounting Changes and Error Corrections*.

See Chapter 5 for further discussion.

PRESENTATION AND DISCLOSURES

ASC 350 and ASC 360 provide guidance for presentation and disclosures for goodwill, intangible assets, and PP&E. These requirements are designed to provide financial statement users with meaningful information to assist them in assessing the status of the assets and potential future cash flows. See Chapter 6 for further discussion.

ABOUT THIS BLUEPRINT

This Blueprint includes detailed guidance on accounting for impairments of goodwill, indefinite-lived intangible assets, and long-lived assets. While this Blueprint does not include all the requirements of ASC 350 and ASC 360, it summarizes key aspects that are commonly considered when assessing assets for impairment, including options available only to private companies. It also includes practical examples and interpretive guidance to assist entities and practitioners in accounting for impairments. The accounting for each transaction may vary based on the specific facts and circumstances and, therefore, may differ from the examples and insights in this Blueprint.

The Blueprint has been divided into chapters that address key aspects of accounting for impairments. These chapters are generally organized in the order in which an entity would apply the impairment testing models.



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Chapter 1: Scope and Order of Testing



1.1 OVERVIEW

 FASB REFERENCES

ASC 350-20: Goodwill, Intangible Assets, ASC 350-20-35-1, and ASC 350-30-05-4

Accounting for intangible assets, goodwill, and other long-lived assets can be challenging. Although they are similar (most notably in that they each provide benefits for more than one period), there are also important differences.

For example, many long-lived assets, such as PP&E, are tangible, while others lack physical substance (intangible assets). Tangible assets and most intangible assets have estimable useful lives, but some intangible assets and goodwill provide benefits for an indefinite period (that is, there are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of the intangible asset). Additionally, goodwill is not a separately identifiable asset; rather, it is an asset representing the future economic benefits that are not directly attributable to other identifiable assets. Goodwill only arises from business combinations, acquisitions by NFP entities, fresh start accounting upon an emergence from Chapter 11 bankruptcy in accordance with ASC 852, or upon the formation of a joint venture.

Because of these differences, the accounting varies for each type of asset. For example, long-lived assets (including PP&E and finite-lived intangible assets) are depreciated or amortized over their expected useful lives, but indefinite-lived intangible assets and goodwill are not amortized (except by private companies or NFP entities that elect the goodwill alternative – see Chapter 5). Each type of asset also has different impairment testing models.

A key consideration in applying the impairment guidance is the determination of the appropriate unit of account, which differs depending on the nature of the asset and the applicable guidance. Under U.S. GAAP, impairment testing is not performed at a single, uniform level of aggregation for all assets. For example, indefinite-lived intangible assets are generally tested for impairment on an individual-asset basis in accordance with ASC 350-30 (see Section 2.2.1), while goodwill is tested at the reporting unit level in accordance with ASC 350-20 (see Section 4.2.1). In contrast, finite-lived intangible assets and other long-lived assets are tested for impairment at the asset-group level in accordance with ASC 360 (see Section 3.2.1). Determining the appropriate unit of account is critical, as it affects both the identification of triggering events and the measurement of impairments.

The impairment tests under ASC 350 and ASC 360 might require an entity to measure fair value. While ASC 350 and ASC 360 establish when impairment testing is required and how impairments are recognized, the determination of fair value is governed by ASC 820, *Fair Value Measurement*.

The impairment models addressed in this Blueprint are summarized in the following table.

ASSET	IMPAIRMENT TEST	UNIT OF ACCOUNT	FREQUENCY	MEASUREMENT
Indefinite-lived intangible assets (Chapter 2)	▶ Optional qualitative assessment ▶ One-step quantitative test	Typically, single asset	Annually and upon triggering event	Fair value of the asset
Long-lived assets (tangible assets and finite-lived intangible assets) (Chapter 3)	Two-step quantitative test	Asset group	Upon triggering event	▶ Step 1: Undiscounted cash flows of the asset group ▶ Step 2: Fair value of the asset group
Goodwill (Chapter 4)	▶ Optional qualitative assessment ▶ One-step quantitative test	Reporting unit	Annually and upon triggering event	Fair value of the reporting unit

Impairment testing of indefinite-lived intangible assets and goodwill is in the scope of ASC 350 (see Section 1.2). Impairment testing for finite-lived intangible assets and other long-lived assets is in the scope of ASC 360 (see Section 1.3). If multiple types of assets are tested for impairment at the same time, ASC 350 and ASC 360 prescribe a specific order to perform the impairment tests (see Section 1.4).

U.S. GAAP provides private companies and NFP entities several accounting alternatives related to goodwill and intangible assets. Entities that elect these alternatives are subject to different impairment testing requirements (see Chapter 5).

1.2 SCOPE OF ASC 350: GOODWILL AND INTANGIBLE ASSETS

1.2.1 What is in the Scope of ASC 350



FASB REFERENCES

ASC 350-10-05-1, ASC 350-10-05-3 through 05-3A, ASC 350-10-15-2, ASC 350-20-05-1 through 05-2, ASC 350-20-15-2, ASC 350-30-15-3, and ASC 805-50-30-3

The guidance in ASC 350 applies to all entities.

ASC 350 provides limited guidance for the **initial** accounting for intangible assets⁵ that are internally developed or acquired. Entities often must also look to the following guidance:

⁵ Unless otherwise noted, this Blueprint uses the term “intangible assets” to refer to intangible assets that are in the scope of ASC 350.

- ▶ ASC 805 provides guidance for the initial accounting for assets acquired in a business combination.
- ▶ ASC 958-805, *Not-for-Profit Entities – Business Combinations* provides guidance for the initial accounting of assets acquired by an NFP entity.
- ▶ ASC 805-50, *Business Combinations – Related Issues*, provides guidance for the initial accounting for assets acquired in an asset acquisition that is not a business combination (or NFP acquisition).
- ▶ ASC 805-60 provides guidance for the initial recognition and measurement of assets by a joint venture (as defined in U.S. GAAP) upon formation.

BDO's Blueprint, [Business Combinations Under ASC 805](#), includes guidance for the **initial** accounting for assets acquired in a business combination, an asset acquisition, or by a joint venture at its formation.

ASC 350 also provides guidance on the **subsequent** accounting for intangible assets and goodwill.

- ▶ ASC 350-30 provides guidance on accounting for intangible assets, including guidance for determining useful lives, recognizing amortization, and testing indefinite-lived intangible assets for impairment⁶ (see Chapter 2).
- ▶ ASC 350-20 provides guidance on accounting for goodwill, including impairment testing (see Chapter 4).

U.S. GAAP provides private companies and NFP entities several accounting alternatives related to goodwill and intangible assets (see Chapter 5).

1.2.2 What is Not in the Scope of ASC 350



FASB REFERENCES

ASC 350-10-15-3 through 15-4, ASC 350-30-15-4, ASC 350-60-15-1, ASC 818-10-15-1 through 15-3, and ASC 818-20-15-1

ASC 350 does **not** apply to the following:

- ▶ Assets other than intangible assets and goodwill (see Section 1.4.3 for examples).
- ▶ Environmental credits (see ASC 818-20, *Accounting for Environmental Credit Programs* and BDO's publication, [Environmental Credit Guidance Established Under ASC 818](#)).
- ▶ Capitalized software costs (see ASC 985-20, *Software – Costs of Software to Be Sold, Leased, or Marketed* and BDO's Blueprint, [Accounting for Software Costs](#)).
- ▶ Intangible assets recognized for acquired insurance contracts (see ASC 944-805, *Financial Services – Insurance: Business Combinations*).
- ▶ Crypto assets that are measured at fair value with changes recognized in earnings (see ASC 350-60, *Intangibles – Goodwill and Other – Crypto Assets* and BDO's publication, [Accounting for Cryptocurrencies](#)).

⁶ Testing finite-lived intangible assets for impairment is not within the scope of ASC 350-30. Instead, finite-lived intangible assets are tested for impairment with other long-lived assets in the scope of ASC 360 (see Section 1.3).

1.3 SCOPE OF ASC 360: LONG-LIVED ASSETS

1.3.1 What is in the Scope of ASC 360



FASB REFERENCES

ASC 350-30-35-14, ASC 350-40-35-1, ASC 350-40-35-11, ASC 360-10-15-2, ASC 360-10-15-4, ASC 360-10-30-1 through 30-2, ASC 360-10-30-5 through 30-6, ASC 360-10-35-27, and ASC 805-50-15-3

ASC 360-10-20: Asset Group; Disposal Group

The guidance in ASC 360 applies to all entities.

ASC 360 provides limited guidance for the **initial** accounting for PP&E. It does not provide guidance for the initial accounting for other long-lived assets, which is addressed in other U.S. GAAP, including the following:

- ▶ ASC 805 provides guidance for the initial accounting for assets acquired in a business combination.
- ▶ ASC 958-805 provides guidance for the initial accounting of assets acquired by an NFP entity.
- ▶ ASC 805-50 provides guidance for the initial accounting for assets acquired in an asset acquisition that is not a business combination.
- ▶ ASC 805-60 provides guidance for the initial recognition and measurement of assets by a joint venture (as defined in U.S. GAAP) upon formation.

BDO's Blueprint, [Business Combinations Under ASC 805](#), includes guidance for the **initial** accounting for assets acquired in a business combination, an asset acquisition, or by a joint venture at its formation.

ASC 360 provides guidance for the **subsequent** accounting for PP&E, including guidance for determining useful lives, recognizing depreciation, impairment testing, and the eventual disposal of the PP&E. ASC 360 also includes guidance on impairment testing for finite-lived intangible assets.

The **impairment** and **disposal** guidance in ASC 360 applies to specific long-lived assets, including:

- ▶ PP&E
- ▶ Right-of-use assets of lessees
- ▶ Long-lived assets of lessors subject to operating leases
- ▶ Proved oil and gas properties accounted for using the successful-efforts method of accounting
- ▶ Long-term prepaid assets
- ▶ Finite-lived intangible assets
- ▶ Capitalized internal use software
- ▶ Capitalized implementation costs by a customer in a hosted software arrangement

In accordance with ASC 360, the unit of account for impairment testing is the asset group (see Section 3.2.1). The unit of account for disposals is a disposal group (see Section 3.3.1).

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.”

Disposal Group

“A disposal group for a long-lived asset or assets to be disposed of by sale or otherwise represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction. A disposal group may include a discontinued operation along with other assets and liabilities that are not part of the discontinued operation.”

Under these definitions, asset groups and disposal groups often include additional assets and liabilities that are not in the scope of ASC 360. For example, they may include accounts receivable, inventory, accounts payable, long-term debt, or asset retirement obligations. Before performing an impairment test for an asset group or disposal group in accordance with ASC 360, the entity must first adjust the carrying amounts of any assets or liabilities that are not in the scope of ASC 350 or ASC 360, in accordance with other U.S. GAAP (see Section 1.4.3).

1.3.2 What is Not in the Scope of ASC 360



FASB REFERENCES

ASC 360-10-15-4 through 15-6, ASC 360-10-30-6 through 30-8, ASC 360-10-35-27

ASC 360 does not apply to the following:

- ▶ Servicing assets
- ▶ Financial instruments
- ▶ Deferred policy acquisition costs
- ▶ Deferred tax assets
- ▶ Unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting
- ▶ Oil and gas properties that are accounted for using the full-cost method of accounting as prescribed by the Securities and Exchange Commission (SEC) (see Regulation S-X, Rule 4-10)
- ▶ Specific other long-lived assets for which the accounting is prescribed elsewhere in U.S. GAAP:
 - Financial reporting in the record and music industry (see ASC 928, *Entertainment – Music*)
 - Financial reporting in the broadcasting industry (see ASC 920, *Entertainment – Broadcasters*)
 - Accounting for computer software to be sold, leased, or otherwise marketed (see ASC 985-20)
 - Accounting for abandonments and disallowances of plant costs for regulated entities (see ASC 980-360, *Regulated Operations - Property, Plant, and Equipment*)
- ▶ Accounting for collections (see ASC 958-360, *Not-for-Profit Entities – Property, Plant, and Equipment*)
- ▶ The initial accounting for assets acquired in a non-monetary exchange under ASC 845, *Nonmonetary Transactions*
- ▶ The initial lease accounting for right of use assets under ASC 842, *Leases* (see BDO’s Blueprint, [Accounting for Leases Under ASC 842](#))

ASC 360 does not change U.S. GAAP applicable to other individual assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) that are outside the scope of ASC 360 but are included in an asset group or a disposal group. Before performing an impairment test for an asset group or disposal group under ASC 360, the entity must first adjust the carrying amounts of any assets or liabilities that are not in the scope of ASC 350 or ASC 360 in accordance with other U.S. GAAP (see Section 1.4.3).

1.4 ORDER OF IMPAIRMENT TESTING

As noted in the table in Section 1.1, goodwill, indefinite-lived intangible assets, and other long-lived assets are not all tested for impairment at the same time. For example, goodwill and indefinite-lived intangible assets are tested for impairment annually (but the dates do not have to be the same), yet other long-lived assets (including tangible assets and finite-lived intangible assets) are only tested for impairment if there is a triggering event.

However, if multiple types of assets are tested for impairment at the same time, ASC 350 and ASC 360 prescribe a specific order to perform the impairment tests. The order of impairment testing is different for assets that will be held and used (see Section 1.4.1) than for assets held for sale (see Section 1.4.2).

1.4.1 Order of Impairment Testing: Assets Held and Used



FASB REFERENCES

ASC 350-20-35-31 through 35-32 and ASC 360-10-35-27

When testing assets that will be held and used by the entity, the order of impairment testing is as follows:



At each step, if there is an impairment, the assets are adjusted (and the loss is recognized) before proceeding to the next step.

The order of impairment testing for assets held for sale is different (see Section 1.4.2).

1.4.2 Order of Impairment Testing: Assets Held for Sale



FASB REFERENCES

ASC 360-10-35-39

When testing assets that are held for sale, the order of impairment testing is as follows:



At each step, if there is an impairment the assets are adjusted (and the loss is recognized) before proceeding to the next step.

The order of impairment testing for assets held and used is different (see Section 1.4.1).

1.4.3 Individual Assets Not Tested for Impairment Under ASC 350 or ASC 360



FASB REFERENCES

ASC 320-10-35-1, ASC 321-10-35-1 through 35-4; ASC 323-10-35-31 through 35-32A, ASC 326-20-15-2, ASC 326-20-30-10A through 30-10H, ASC 326-30-15-2, ASC 326-30-35-2, ASC 330-10-35-1A through 35-7, ASC 340-40-35-3, ASC 360-10-15-4(b)(2), ASC 606-10-45-3 through 45-4, ASC 740-10-30-2, and ASC 740-10-30-5

Before assessing whether long-lived assets or goodwill are impaired, the entity must first adjust the carrying amounts (in accordance with other U.S. GAAP) of any individual assets that are not tested for impairment under ASC 350 or ASC 360. Some examples are as follows:

	GUIDANCE	OVERVIEW OF MODEL
Investments in debt securities	ASC 320, <i>Investments - Debt Securities</i> ASC 326, <i>Financial Instruments - Credit Losses</i>	▶ Trading securities: Recognize at fair value with changes in fair value included in earnings; impairment testing not needed. ▶ Available-for-sale securities: Recognize at fair value, generally with unrealized holding gains and losses included in other comprehensive income. Recognize credit losses in earnings through an allowance. ▶ Held-to-maturity securities: Recognize at amortized cost, adjusted for recognition of current expected credit losses. Recognize other noncredit losses only when realized.
Investments in equity securities	ASC 321, <i>Investments - Equity Securities</i> ASC 323, <i>Investments - Equity Method and Joint Ventures</i>	▶ ASC 321 investments (standard accounting): Recognize at fair value with changes in fair value included in earnings. Impairment testing is not needed. ▶ ASC 321 investments (measurement alternative): Adjust carrying amount if there are observable price changes or if qualitative analysis indicates the investment is impaired. ▶ Equity method investments: Recognize impairment in earnings when impairment is other than temporary (see Section 4.8 of BDO's Blueprint, Equity Method Investments Under ASC 323).
Accounts receivable and contract assets	ASC 326	Recognize current expected credit losses (see BDO's publication, Measurement of Credit Losses for Accounts Receivable and Contract Assets).
Inventory	ASC 330, <i>Inventory</i>	Measure at the lower of cost or market if using LIFO or retail inventory method; otherwise (for all other methods), measure at the lower of cost or net realizable value.
Deferred commissions and other costs to acquire contracts	ASC 340-40, <i>Other Assets and Deferred Costs: Contracts with Customers</i>	Recognize impairment if carrying amount exceeds the future revenues expected to be recognized on the related revenue contracts, less costs to be incurred directly in fulfilling those contracts.

	GUIDANCE	OVERVIEW OF MODEL
Cryptocurrencies	ASC 350-60 ASC 350-30	▶ Crypto assets (ASC 350-60): Measure at fair value with changes recognized in earnings (see BDO's publication, Accounting for Cryptocurrencies). ▶ Crypto assets (not ASC 350-60): Account for in accordance with other U.S. GAAP (generally as indefinite-lived intangible assets in accordance with ASC 350-30).
Deferred tax assets	ASC 740, <i>Income Taxes</i>	Recognize a valuation allowance sufficient to reduce the deferred tax asset to the amount that is more-likely-than-not to be realized.
Environmental credit assets	ASC 818	▶ Compliance environmental credit assets: Remeasurement not needed; impairment testing not needed. ▶ Noncompliance environmental credit assets: Subsequently measure at cost, less any impairment. (Test for impairment at the end of each reporting period and remeasure to fair value when the carrying amount of a noncompliance environmental credit exceeds its fair value). See BDO's Bulletin, Environmental Credit Guidance Established Under ASC 818.

Chapter 2: ASC 350 Indefinite-Lived Intangible Assets



2.1 OVERVIEW: ACCOUNTING FOR INTANGIBLE ASSETS



FASB REFERENCES

ASC 350-30-05-1 through 05-4, ASC 350-30-20: Intangible Assets, ASC 350-30-25-1 through 25-3, ASC 350-30-30-1, ASC 350-30-35-1, ASC 35-30-35-4; ASC 350-30-35-6, ASC 350-30-35-14 through 35-15, and ASC 350-30-35-18

Intangible assets are assets that lack physical substance. However, the term does not include financial assets or goodwill.⁷

Internally-generated intangible assets are typically not recognized (except for certain software development costs – see BDO’s Blueprint, [Accounting for Software Costs](#)). Instead, costs of internally generated intangible assets are expensed as incurred.

Intangible assets acquired in a business combination (or in an asset acquisition of a VIE) are recognized at fair value (unless they qualify for a measurement exception in accordance with ASC 805 (for example, reacquired rights or an asset held for sale). Conversely, in an asset acquisition that is not a VIE, acquired intangible assets are accounted for under a cost accumulation model (with the cost being allocated to the assets acquired based on relative fair values (See Section C.4 of BDO’s Blueprint, [Business Combinations Under ASC 805](#), for more guidance).

When an entity recognizes an intangible asset, it must determine how long the asset is expected to contribute to the entity’s future cash flows (that is, its useful life). The length of the useful life determines whether the intangible asset is finite-lived or indefinite-lived:

- ▶ **Finite-lived:** If the useful life can be estimated, the intangible asset is considered finite-lived and is amortized over its estimated useful life. (See ASC 350-30 for guidance on estimating the useful life).
 - The amortization method must reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. If a specific pattern cannot be reliably determined, a straight-line amortization method is required.

⁷ Unless otherwise noted, this Blueprint uses the term “intangible assets” to refer to intangible assets that are in the scope of ASC 350 (see Section 1.2).

- Finite-lived intangible assets are subject to impairment testing under ASC 360, whenever events or changes in circumstances indicate that it is more-likely-than-not that the asset (asset group) is impaired (see Chapter 3).
- ▶ Indefinite-lived: If there are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of an intangible asset, it is considered indefinite-lived, and it is not amortized. Instead, it is tested for impairment annually and whenever events or changes in circumstances indicate that it is more-likely-than-not that the asset is impaired (see Section 2.2).



INDEFINITE DOES NOT MEAN INFINITE OR INDETERMINATE

ASC 350-30 indicates that the term “indefinite” does not mean “infinite” or “indeterminate.” The useful life of an intangible asset is indefinite if it extends beyond the foreseeable horizon (that is, there is no foreseeable limit on the period of time over which the asset is expected to contribute to the entity’s cash flows).

Examples of intangible assets that may have an indefinite life include:

- ▶ Trademarks and trade names that are expected to be renewed indefinitely and that have no expected erosion in value
- ▶ Brand names with long-term strategic relevance and no foreseeable obsolescence
- ▶ Perpetual easements or rights-of-way that provide continuous access without expiration
- ▶ Broadcast, telecommunications, or transportation licenses or permits that are renewable without significant cost and are not expected to be withdrawn

The fact that an intangible asset falls within one of these categories does not automatically mean the asset has an indefinite life. Entities must evaluate legal, regulatory, contractual, competitive, economic, and other relevant factors. Determining whether an intangible asset has an indefinite life requires the application of professional judgment based on the facts and circumstances.

ASC 350-30-55 provides several examples that may assist in estimating the useful life of an intangible asset, including determining whether the intangible asset has an indefinite life.

2.2 IMPAIRMENT TESTING: INDEFINITE-LIVED INTANGIBLE ASSETS



FASB REFERENCES

ASC 350-30-35-9 through 35-10, ASC 350-30-35-12, ASC 350-30-35-15 through 35-17, ASC 350-30-35-18, and ASC 350-30-55-26 through 55-28

Indefinite-lived intangible assets are not amortized, so they must be tested for impairment annually and whenever events or circumstances indicate that it is more-likely-than-not that the asset is impaired. An indefinite-lived intangible asset is impaired if its fair value is less than its carrying amount.

Every period, the entity must also re-evaluate the remaining useful life of its intangible assets. Changes in business strategy, competitive dynamics, regulatory environments, or plans to discontinue or significantly change the use of an asset, could result in a determination that an asset’s useful life is no longer indefinite. If an indefinite-lived intangible asset is subsequently determined to have a finite useful life, it must be tested for impairment (see Section 2.2.3) and then amortized prospectively over its remaining estimated useful life (see Example 2-1).

BDO INSIGHT 2-1: RECLASSIFICATION OF INTANGIBLE ASSET FROM FINITE-LIVED TO INDEFINITE-LIVED

If a finite-lived intangible asset (which was being amortized) is subsequently determined to have an indefinite life, then it is no longer amortized; instead, it must be tested for impairment using the impairment test for indefinite-lived intangible assets (see Section 2.2.3). However, we believe that the reclassification of an intangible asset from finite-lived to indefinite-lived would be rare.

Example 2-1 illustrates the accounting for a trademark that is no longer deemed to have an indefinite life.

EXAMPLE 2-1 (ADAPTED FROM ASC 350-30-55-26 THROUGH 55-28): TRADEMARK NO LONGER DEEMED TO HAVE AN INDEFINITE LIFE**FACTS**

- ▶ An entity acquired a trademark for a line of automobiles several years ago in an acquisition of a business.
- ▶ Prior to the acquisition, the line of automobiles had been produced by the acquired business 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. An analysis of economic and legal factors indicated there was no limit to the time period in which 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 the production of that automobile line over the next four years.

CONCLUSION

Because the estimated useful life of the trademark is no longer indefinite, the entity must test the trademark for impairment and then begin amortizing it.

ANALYSIS

Because the useful life of the trademark is no longer indefinite, the trademark must be tested for impairment (using the impairment test for indefinite-lived intangible assets — see Section 2.2.3). The trademark's carrying amount after adjustment is then amortized prospectively over its remaining four-year useful life, following the pattern in which the intangible asset's benefits are expected to be consumed or otherwise used up.

Because the trademark is now subject to amortization (that is, it is considered finite-lived), in the future it will be tested for impairment with other long-lived assets in the scope of ASC 360, whenever events or changes in circumstances indicate that it is more-likely-than-not that the asset (asset group) is impaired (see Chapter 3).

2.2.1 Unit of Account: Indefinite-Lived Intangible Assets**FASB REFERENCES**

ASC 350-30-35-21 through 35-28, ASC 350-30-55-29 through 55-35, and ASC 805-20-55-18

When testing indefinite-lived intangible assets for impairment, the unit of account is typically the individual asset. However, if multiple indefinite-lived intangible assets are operated as a single asset and are essentially inseparable from one another, ASC 350 requires them to be combined into a single unit of account for impairment testing.

ASC 350 provides the following indicators that multiple indefinite-lived intangible assets must be combined as a single unit of account for impairment testing:

- ▶ The intangible assets were purchased to construct or enhance a single asset (that is, they will be used together).
- ▶ Had the intangible assets been acquired in the same acquisition, they would have been recorded as one asset.
- ▶ The intangible assets as a group represent the highest and best use of the assets (for example, they would yield the highest price if sold as a group).
- ▶ The marketing or branding strategy provides evidence that the intangible assets are complementary (see Section 4.4.2.7.4 of BDO's Blueprint, [Business Combinations Under ASC 805](#)).

None of these indicators are determinative. Judgment must be applied.

ASC 350 also lists the following indicators that multiple indefinite-lived intangible assets **cannot** be combined as a single unit of account for impairment testing:

- ▶ Each intangible asset generates cash flows independent of any other intangible asset.
- ▶ If sold, each intangible asset would likely be sold separately.
- ▶ The entity has adopted or is considering adopting a plan to dispose of one or more of the intangible assets separately.
- ▶ The intangible assets are used exclusively by different asset groups (see Section 1.3).
- ▶ 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 the other intangible assets within the group.

Importantly, the unit of account:

- ▶ Can only include indefinite-lived intangible assets (it cannot include goodwill or finite-lived assets).
- ▶ Cannot represent a group of indefinite-lived intangible assets that collectively constitute a business or a nonprofit activity.

If intangible assets that were previously tested as separate units of account are subsequently combined into a single unit of account (due to a change in circumstances), the entity must test those intangible assets separately for impairment before combining them.

BDO INSIGHT 2-2: COMBINING MULTIPLE INDEFINITE-LIVED INTANGIBLE ASSETS INTO A SINGLE UNIT OF ACCOUNT

In our experience, the unit of account for testing indefinite-lived intangible assets for impairment is typically the individual asset level. Concluding that multiple indefinite-lived intangible assets should be combined into a single unit of account for impairment testing requires professional judgment based on the facts and circumstances.

Examples 2-2 through 2-3 illustrate scenarios for evaluating whether multiple indefinite-lived intangible assets must be combined into a single unit of account for impairment testing.

EXAMPLE 2-2 (ADAPTED FROM ASC 350-30-55-29 THROUGH 55-32): EVALUATING WHETHER MULTIPLE INDEFINITE-LIVED INTANGIBLE ASSETS MUST BE COMBINED — EASEMENTS

FACTS

- ▶ Entity A is a distributor of natural gas with 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 do not meet the definition of a lease under ASC 842
- ▶ The northern pipeline was constructed on 50 easements acquired in 50 separate transactions.
- ▶ The southern pipeline was constructed on 100 easements that were acquired in a business combination and recorded as a single asset.
- ▶ Although each pipeline functions independently of the other, they are in the same reporting unit.
- ▶ The 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 ASC 360 (see Section 1.3). That is, the northern pipeline and its related easements represent an asset group separate from the southern Pipeline and its related easements.
- ▶ While Entity A has no current plans to sell or otherwise dispose of any of its easements, Entity A believes that if either pipeline were sold, Entity A would likely convey the pipeline and all related easement rights as an integrated group of assets.

CONCLUSION

Entity A has two units of account that cannot be combined when testing the indefinite-lived easements for impairment under ASC 350.

ANALYSIS

The 50 easements supporting the northern pipeline represent a single unit of account as indicated by the following:

- ▶ They are collectively used together in a single asset group.
- ▶ If acquired in a single transaction, they would have been recorded as one asset.
- ▶ If sold, they would likely be sold with the related pipeline as an integrated group.

For the same reasons, the easements supporting the southern pipeline also represent a single unit of account.

However, the collective land easements underlying the northern and southern pipelines cannot be combined into a single unit of account for the following reasons:

- ▶ They generate cash flows independent of one another.
- ▶ They are used exclusively by separate asset groups determined under ASC 360.

Therefore, Entity A has two units of account when testing the easements for impairment:

- ▶ The collection of easements supporting the northern pipeline.
- ▶ The collection of easements supporting the southern pipeline.

These units of account do not include the respective pipeline because the pipeline is a tangible asset. Only intangible assets are considered in the indefinite-lived intangible asset impairment test in accordance with ASC 350.

The unit of account in an entity's consolidated financial statements may differ from the unit of account in a subsidiary's separate financial statements, depending on how the assets were recognized by each entity. As a result, an impairment recognized in the consolidated financial statements might differ from the sum of impairments recognized in the subsidiary's separate financial statements.

Example 2-3 illustrates this concept.

EXAMPLE 2-3 (ADAPTED FROM ASC 350-30-55-33 THROUGH 55-35): EVALUATING WHETHER MULTIPLE INDEFINITE-LIVED INTANGIBLE ASSETS MUST BE COMBINED — TRADE NAMES

FACTS

- ▶ Entity A acquired an international vacuum cleaner manufacturer, Entity B, which sells vacuums under a well-known trade name, in a business combination.
- ▶ The operations of Entity B are conducted in three countries through separate legal entities, and each of those legal entities owns the registered trade name used in that country.
- ▶ Entity A recognized three separate intangible assets for the trade name in the business combination, solely because separate financial statements are required for each subsidiary).
- ▶ The operations in each country have separately identifiable cash flows; therefore, each represents a separate asset group under ASC 360 (see Section 1.3).

- ▶ A single brand manager is responsible for the Entity B trade name, the value of which is expected to be recovered from the worldwide sales of Entity B's products.
- ▶ While Entity A has no current plans to sell or otherwise dispose of the trade name in any of its locations, Entity A believes that it would likely sell them all together.

CONCLUSION

Entity A combines its three separately recorded trade names into a single unit of account when testing the indefinite-lived trade names for impairment under ASC 350.

ANALYSIS

- ▶ The three trade name assets represent a single unit of account as indicated by the following: The three registered trade names were acquired in the same business combination.
- ▶ Absent the requirement to prepare separate financial statements for subsidiaries, the trade names would have been recorded as a single asset.
- ▶ The trade name is managed by a single brand manager.
- ▶ If sold, Entity A would likely sell all three legally registered trade names as a single asset.

Therefore, Entity A must combine the three separately recorded trade name assets into a single unit of account when testing for impairment. The unit of account does not include any tangible assets or finite-lived intangible assets. Only indefinite-lived intangible assets are included in the indefinite-lived intangible asset impairment test under ASC 350.

2.2.2 Timing of Impairment Test: Indefinite-Lived Intangible Assets



FASB REFERENCES

ASC 350-30-35-18

Indefinite-lived intangible assets are not amortized, so they must be tested for impairment annually and whenever events or changes in circumstances indicate that it is more-likely-than-not that the asset is impaired. Considerations regarding both annual and interim impairment tests are discussed in the following sections.

2.2.2.1 Annual Impairment Test: Indefinite-Lived Intangible Assets



FASB REFERENCES

ASC 350-30-35-18

Optional qualitative assessment

Quantitative impairment test

BDO INSIGHT 2-3: TIMING OF ANNUAL IMPAIRMENT TESTS

Although ASC 350 requires indefinite-lived intangible assets to be tested for impairment annually, it does not prescribe when the annual impairment test must be performed.⁸ However, most entities perform the test on the same date each year. Many entities perform their annual impairment tests at a period-end date, but there is no requirement to do so. An entity may elect to perform its annual impairment test at an earlier date, which provides more time to complete the test before the financial statements are due.

Similarly, ASC 350 does not prescribe when the annual impairment test must be performed in relation to other annual impairment tests. If an entity has multiple indefinite-lived intangible assets, it may elect to test them for impairment on different dates. However, most entities elect to test them on the same date. Additionally, entities often elect to use the same annual impairment testing dates for both indefinite-lived intangible assets and goodwill.

If an entity wishes to change the timing of the impairment test, we believe that it may do so without assessing whether the change is preferable under ASC 250, *Accounting Changes and Error Corrections*. However, there should not be more than 12 months between tests. Additionally, an entity must not change its testing date to avoid or accelerate an impairment.

Although ASC 350 does not preclude changing the annual impairment testing date for indefinite-lived intangibles, we believe that changes in the impairment testing date should be infrequent, because frequent changes in timing would call into question whether an entity is changing dates to avoid a potential impairment or to manipulate the timing of an impairment. We also believe that an entity that changes its impairment testing dates must provide transparent disclosures about this change.

2.2.2.2 Triggering Events Evaluation: Indefinite-Lived Intangible Assets



FASB REFERENCES

ASC 350-30-35-18 through 35-18F

Triggering event(s)

Quantitative impairment test

Indefinite-lived intangible assets must be tested between annual impairment tests whenever events or circumstances indicate that it is more-likely-than-not that the asset is impaired. Such events or circumstances are known as “triggering events.” An entity must continually evaluate whether a triggering event has occurred.

⁸ In contrast, when performing annual impairment testing for goodwill (as opposed to indefinite-lived intangible assets), entities are **required** to test on the same date each year (see Section 4.2.2.1.1).

ASC 350 provides the following **examples** of events and circumstances that could trigger an interim impairment test:

EXAMPLES OF POTENTIAL TRIGGERING EVENTS FOR INDEFINITE-LIVED INTANGIBLE ASSETS		
	Cost factors	▶ Increases in raw materials, labor, or other costs that have a negative effect on future expected earnings and cash flows
	Financial performance	▶ Negative or declining cash flows ▶ A decline in actual or projected revenue or earnings compared with actual and projected results of relevant prior periods
	Other factors	▶ Legal, regulatory, contractual, political, business, or other factors ▶ Asset-specific factors
	Entity-specific events	▶ Changes in management, key personnel, strategy, or customers ▶ Contemplation of bankruptcy ▶ Litigation
	Industry and market considerations	▶ A deterioration in the environment in which an entity operates ▶ Increased competition ▶ A decline in market-dependent multiples or metrics (in both absolute terms and relative to peers) ▶ Reduced demand for an entity's products or services because of obsolescence, competition, or other economic factors, such as: • Instability in the industry • Technological advances • Legislative action that results in an uncertain or changing business environment • Changes to distribution channels
	Macroeconomic conditions	▶ Deterioration in general economic conditions ▶ Limitations on accessing capital ▶ Fluctuations in foreign exchange rates ▶ Other developments in equity and credit markets



ALL FACTS AND CIRCUMSTANCES MUST BE CONSIDERED

The examples in the preceding table are not an exhaustive list, and no single factor is conclusive.

Additionally, sometimes a combination of events and circumstances over time (rather than all at once) can trigger an interim impairment test. An entity must consider all relevant information, including positive and mitigating events and circumstances. For example, if a recent impairment test has demonstrated significant headroom between the fair value and the carrying amount of an indefinite-lived intangible asset (that is, the fair value significantly exceeded the carrying amount), that fact can be considered when assessing whether it is more-likely-than-not the asset is impaired.

The analysis must focus on the events and circumstances that are most likely to affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset.

The SEC staff frequently questions registrants on the timing of recognized impairments. In such cases, the staff often asks registrants to explain why the impairment was recognized in the current period and not earlier, and what specific events or changes in circumstances triggered the impairment assessment.

Determining whether there has been a triggering event requires the use of professional judgment based on the facts and circumstances. Entities should design processes and controls to identify impairment indicators on a timely basis and should contemporaneously document management's evaluation of relevant events and circumstances.

If, after assessing the totality of events and circumstances, an entity determines that it is **not** more-likely-than-not⁹ that the asset is impaired, the quantitative test is not required. Otherwise, the entity must perform the quantitative impairment test (see Section 2.2.3.2).

BDO INSIGHT 2-4: A TRIGGERING EVENT EVALUATION IS ESSENTIALLY A STEP 0 QUALITATIVE ASSESSMENT

The objective of a triggering events evaluation is the same as that of the optional Step 0 qualitative assessment (described in Section 2.2.3.1) that may be performed in place of the annual quantitative test. Therefore, if an entity concludes that a triggering event has occurred, it cannot perform a Step 0 assessment but must instead perform the quantitative test (see Section 2.2.3.2).



TESTING OTHER ASSETS FOR IMPAIRMENT IF AN INDEFINITE-LIVED INTANGIBLE ASSET IMPAIRMENT TRIGGERING EVENT HAS OCCURRED

When an entity identifies a triggering event or recognizes an impairment related to an indefinite-lived intangible asset, it should also consider whether the same events and circumstances trigger impairment testing for other assets, including goodwill. While the impairment tests for indefinite-lived intangible assets and goodwill are distinct, they are often interrelated; the assumptions made for one should be consistent for the other, since they reflect the underlying economics. For example, a decline in the fair value of an indefinite-lived intangible asset might be caused by macroeconomic conditions that could also affect other aspects of the entity's business.

If indefinite-lived intangible assets, goodwill, or another asset (or asset group or disposal group) are tested for impairment at the same time, the entity must apply the appropriate order of impairment testing (see Section 1.4).

BDO's publication, [Accounting and Reporting in Times of Economic Uncertainty](#), provides a summary of other accounting topics that may be relevant to an entity when a triggering event has occurred.

2.2.3 Performing the Impairment Test: Indefinite-Lived Intangible Assets

Indefinite-lived intangible assets must be tested for impairment annually and whenever events or changes in circumstances indicate that it is more-likely-than-not that the asset is impaired. An indefinite-lived intangible asset is impaired if its fair value is less than its carrying amount.

There are two parts to the impairment test: an optional qualitative assessment (see Section 2.2.3.1) and a quantitative test (see Section 2.2.3.2).

⁹ The phrase "more-likely-than-not" refers to a level of likelihood that is more than 50%.

2.2.3.1 Optional Qualitative Assessment – Indefinite-Lived Intangible Assets



FASB REFERENCES

ASC 350-30-35-18A through 35-18F

Optional qualitative assessment

Quantitative impairment test

At the annual impairment testing date, an entity has the option to bypass the quantitative impairment test if it can qualitatively demonstrate that it is not more-likely-than-not that the indefinite-lived intangible asset is impaired. This qualitative assessment is sometimes referred to as “Step 0”.

To perform the qualitative assessment, the entity considers the same factors that indicate a potential triggering event (see Section 2.2.2.2). If the qualitative assessment demonstrates that impairment is unlikely, the quantitative impairment test is not required. Otherwise, the entity must perform the quantitative impairment test (see Section 2.2.3.2).

An entity is not required to perform the qualitative assessment but can elect to bypass Step 0 and go straight to the quantitative test. If an entity decides to bypass Step 0, it can resume the qualitative assessment in any subsequent period.

BDO INSIGHT 2-5: THE STEP 0 QUALITATIVE ASSESSMENT REQUIRES ROBUST EVIDENCE

At the annual impairment testing date, an entity can only bypass the quantitative test if the qualitative assessment demonstrates that it is **not** more-likely-than-not that the indefinite-lived intangible asset is impaired. If the entity concludes that a quantitative impairment test is not required, robust documentation should be prepared to support that conclusion. Generally, such documentation would include the events and circumstances taken into consideration during the qualitative assessment, at a level of precision that clearly supports the conclusion. In many cases, it may be more efficient to perform the annual quantitative test. Therefore, many entities choose to skip the qualitative assessment and proceed directly to the quantitative test.

Determining whether qualitative evidence is sufficient to conclude that an annual quantitative test is not needed requires judgment based on the facts and circumstances

2.2.3.2 Quantitative Impairment Test: Indefinite-Lived Intangible Assets



FASB REFERENCES

ASC 350-30-35-19 through 35-20 and ASC 350-30-55-23 through 55-25

Optional qualitative assessment

Quantitative impairment test

Indefinite-lived intangible assets must be tested for impairment annually and whenever events or circumstances indicate that it is more likely than not that the asset is impaired. A quantitative impairment test is required, as follows:

- ▶ At the annual impairment testing date
 - The entity elects to bypass the qualitative assessment (see Section 2.2.3.1)
 - The entity performs but does not pass the qualitative assessment (see Section 2.2.3.1)

- ▶ In between annual impairment tests, whenever a triggering event occurs (see Section 2.2.2.2)

The quantitative impairment test is a one-step test that compares the fair value of the indefinite-lived intangible asset to its carrying amount:

- ▶ If the fair value exceeds the carrying amount, no impairment exists.
- ▶ If the carrying amount exceeds fair value, the difference is recognized as an impairment. Once an impairment has been recognized, the adjusted basis of the asset becomes its new carrying amount, and subsequent reversals are not recognized.

Carrying amount	—	Fair value	=	Impairment
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BDO INSIGHT 2-6: FAIR VALUE GENERALLY IS DETERMINED IN ACCORDANCE WITH ASC 820

The references to “fair value” in the impairment test do not explicitly link to the definition of fair value in ASC 820. However, we believe that the guidance in ASC 820 on fair value measurements should nevertheless be considered when performing the indefinite-lived intangible asset impairment test. Importantly, the objective of a fair value measurement performed in accordance with ASC 820 is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between **market participants** at the measurement date under current market conditions. It is not an entity-specific measurement.

Measuring the fair value of an indefinite-lived intangible asset requires judgment based on the facts and circumstances. Professional valuation expertise is often needed.

Example 2-4 illustrates the quantitative impairment test for indefinite-lived intangible assets.

EXAMPLE 2-4 (ADAPTED FROM ASC 350-30-55-23 THROUGH 55-25): ANNUAL TEST FOR INDEFINITE-LIVED INTANGIBLE ASSET

FACTS

- ▶ Entity A acquired an indefinite-lived trademark 10 years ago, which has a carrying amount of \$10 million.
- ▶ During the annual impairment test, Entity A determines that unexpected competition has entered the market, which will reduce future sales of the product.
- ▶ Management estimates that cash flows generated by that consumer product will be 20 percent lower for the foreseeable future; however, management expects that the product will continue to generate cash flows indefinitely at those lower amounts.
- ▶ The fair value of the trademark is \$8 million.

CONCLUSION

Entity A recognizes a \$2 million impairment related to its trademark.

ANALYSIS

Entity A determines that it is more likely than not that the trademark is impaired. Therefore, it skips the Step 0 qualitative assessment and performs the quantitative impairment test.

As a result of the projected decrease in future cash flows, Entity A determines that the estimated fair value of the trademark (\$8 million) is less than its carrying amount (\$10 million), and a \$2 million impairment is recognized. Because Entity A expects the trademark to continue to generate cash flows indefinitely, the trademark would continue to be considered indefinite-lived and would not be amortized. Entity A would continue to test the trademark for impairment annually and whenever events or circumstances indicate that it is more likely than not that the asset is impaired.

Chapter 3: ASC 360 Long-Lived Assets



3.1 OVERVIEW: ACCOUNTING FOR LONG-LIVED ASSETS



FASB REFERENCES

ASC 350-30-05-3, ASC 350-30-25-2 through 25-3, ASC 350-30-35-6, ASC 350-30-35-14, ASC 360-10-25-6, ASC 360-10-30-1, ASC 360-10-35-3, ASC 360-10-35-43, and ASC 835-20-05-1

Long-lived assets are productive assets that provide benefits to an entity for more than one year. Long-lived assets include PP&E and finite-lived intangible assets in the scope of ASC 350-30¹⁰ that are depreciated or amortized. The accounting for long-lived assets differs from the accounting for indefinite-lived intangible assets and goodwill (see Chapter 2 and Chapter 4, respectively).

Long-lived assets can be acquired in a business combination or an asset acquisition (see BDO's Blueprint, [Business Combinations Under ASC 805](#)) or they can be internally constructed. Long-lived assets acquired in a business combination are recognized at fair value unless they qualify for a measurement exception (for example, an asset held for sale). Conversely, long-lived assets acquired in an asset acquisition are accounted for under a cost accumulation model.

Internally-constructed PP&E is also accounted for under a cost accumulation model, wherein the costs to construct PP&E and bring it to the condition and location necessary for its intended use are capitalized (including interest costs under ASC 835-20, *Capitalization of Interest*). Internally-generated intangible assets are typically not recognized (see Section 2.1), except for certain software development costs (see BDO's Blueprint, [Accounting for Software Costs](#)).

When an entity recognizes long-lived assets, it must determine how long the assets are expected to contribute to the future cash flows of the entity. Long-lived assets that are held and used are depreciated or amortized over their estimated useful lives.

Long-lived assets are also subject to impairment testing whenever there are triggering events (see Section 3.2.2). If an impairment test reveals that a long-lived asset (asset group)'s carrying amount is not recoverable, the entity recognizes an impairment for the difference between the carrying amount and the fair value. After recognizing an

¹⁰ Unless otherwise noted, this Blueprint uses the term "intangible assets" to refer to intangible assets that are in the scope of ASC 350 (see Section 1.2).

impairment, the long-lived asset's adjusted carrying amount is its new accounting basis. Subsequent reversal of a previously recognized impairment is prohibited.

However, if long-lived assets meet the held-for-sale criteria (see Section 3.3.2), they are no longer depreciated or amortized. Instead, they are remeasured to the lower of their (i) carrying amount or (ii) fair value less costs to sell (see Section 3.3).

3.2 IMPAIRMENT TEST: LONG-LIVED ASSETS (HELD AND USED)



FASB REFERENCES

ASC 360-10-35-17 and ASC 360-10-35-21

Long-lived assets include PP&E and finite-lived intangible assets that are depreciated or amortized. Because these assets are depreciated or amortized, they are less likely to become impaired. Therefore, there is no annual impairment test. Instead, long-lived assets that are held and used are tested for impairment only if events or changes in circumstances indicate that their carrying amounts may not be recoverable (see Section 3.2.2). Upon such an event or change in circumstance (that is, a triggering event), the entity performs a two-step impairment test (see Section 3.2.3). First, it assesses whether the carrying amount of the asset (asset group) is recoverable; second, if the carrying amount is not recoverable, the entity separately measures the impairment.

3.2.1 Unit of Account: Asset Group



FASB REFERENCES

ASC 360-10-15-4, ASC 360-10-35-23 through 35-27, and ASC 360-10-55-35 through 55-36

ASC 360-10-20: Asset Group; Disposal Group

For impairment testing, ASC 360 requires a long-lived asset to be grouped with other assets and liabilities at the lowest level for which cash flows are largely independent of the cash flows of other assets and liabilities. That is, for long-lived assets that are held and used, the unit of account for impairment testing is the asset group.

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.”

BDO INSIGHT 3-1: FACTORS TO CONSIDER WHEN DETERMINING THE ASSET GROUP

- ▶ To determine the asset group, entities may consider factors such as the following: The interdependency of revenues among groups of assets
- ▶ The significance of any shared cost structures
- ▶ How the entity evaluates performance of each group of assets (together or separately)
- ▶ Synergies from operating assets or groups of assets together

Significant interdependencies between assets or groups of assets might suggest that cash flows from each asset or group of assets are not largely independent, suggesting a need to group assets at a higher level. Conversely, it generally would not be appropriate to combine groups of assets that only have minor or administrative interdependencies.

Determining the asset group requires professional judgment based on the facts and circumstances.

Because an asset group is determined based on the lowest level of identifiable cash flows that are largely independent of other assets and liabilities, an asset group typically includes assets and liabilities that are not in the scope of ASC 360. These other assets and liabilities (excluding goodwill) must first be adjusted in accordance with other U.S. GAAP before the asset group is tested for recoverability (see Section 1.4.3). Therefore, any loss that results from the long-lived assets impairment test reduces only the carrying amount of long-lived assets within the group (see Section 3.2.3.2.1).

Sometimes, an upper-level asset group includes all the assets and liabilities of an entity. For example, a corporate headquarters building or centralized research facility might not have identifiable cash flows that are “largely independent of the cash flows of other groups of assets and liabilities.” In such circumstances, if there is more than one asset group in the entity, all lower-level asset groups must first be tested for impairment before testing the entity-level group.

BDO INSIGHT 3-2: THE UNIT OF ACCOUNT IS TYPICALLY NOT A SINGLE ASSET

In most cases, an asset group includes assets and liabilities in addition to the long-lived asset (or assets) being tested. Long-lived assets typically work with other assets and liabilities to generate cash flows. As such, their cash flows are generally interdependent. It is uncommon for a single asset to have cash flows that are “largely independent of the cash flows of other groups of assets and liabilities.”

Determining the appropriate unit of account requires the application of professional judgment based on the facts and circumstances.

Examples 3-1 through 3-5 illustrate the identification of asset groups in different fact patterns.

EXAMPLE 3-1 (ADAPTED FROM ASC 360-10-55-35 THROUGH 55-36): IDENTIFYING ASSET GROUPS – CITY BUS ROUTES WITH REQUIRED ROUTES**FACTS**

- ▶ Entity A provides city bus services under a contract that requires service on five separate routes.
- ▶ Assets (for example, the buses) devoted to serving each route and the cash flows from each route are discrete.
- ▶ One of the routes operates at a significant loss that results in the inability to recover the carrying amounts of the dedicated assets.

CONCLUSION

Entity A has a single asset group that includes the assets of all five bus routes.

ANALYSIS

Although the cash flows for each bus route are separate and identifiable, they are not largely independent of the other bus routes because Entity A cannot curtail any individual bus route. Therefore, the individual bus routes do not qualify as asset groups. Instead, there is a single asset group that includes the assets of all five bus routes.

EXAMPLE 3-2: IDENTIFYING ASSET GROUPS – CITY BUS ROUTES WITHOUT REQUIRED ROUTES**FACTS**

Assume the same facts as in Example 3-1, except that Entity A has discretion to determine which routes it will service.

CONCLUSION

Entity A determines that each bus route is a separate asset group.

ANALYSIS

Because Entity A can elect to curtail any bus route it chooses, the separate and identifiable cash flows of each individual route are largely independent of the other bus routes. Therefore, each bus route qualifies as a separate asset group.

EXAMPLE 3-3: IDENTIFYING ASSET GROUPS – COMMERCIAL REAL ESTATE**FACTS**

- ▶ Entity B is a real-estate entity that owns and operates commercial buildings with 10 buildings in Dallas, three in Houston, and five in Chicago.
- ▶ Each building has discrete cash flows including discrete leasing income and expenses and a mortgage specific to that building.
- ▶ Entity B has a single management team that manages the entire business from its corporate headquarters in Dallas. The management team evaluates the performance of each commercial building separately from the others.

CONCLUSION

Entity B determines that each commercial building (and the assets and liabilities associated with the building) is a separate asset group. The asset group for the corporate headquarters includes all other asset groups.

ANALYSIS

There are no significant interdependencies of leasing income, shared costs, or synergies between the commercial buildings, and the management team evaluates the performance of each commercial building separately from the others. Therefore, Entity B determines that each commercial building (and the assets and liabilities associated with each building, such as receivables, accounts payable, and mortgage) represents a separate asset group.

Entity B concludes that the costs of the management team and corporate headquarters are administrative in nature and therefore do not support grouping the assets at a higher level. However, the corporate headquarters building and related assets do not have cash flows that are largely independent of the commercial buildings. Therefore, if a triggering event indicates the corporate headquarters assets might be impaired, the asset group for testing the corporate headquarters would include the corporate headquarters and all commercial buildings. All lower-level asset groups (that is, all commercial buildings) must first be tested for impairment before testing the entity-level group that includes the corporate headquarters.

EXAMPLE 3-4: IDENTIFYING ASSET GROUPS — RETAILER THAT OPERATES THROUGH STORES AND E-COMMERCE**FACTS**

- ▶ Entity C is a retailer that sells its products using primarily an e-commerce platform but also has a few brick-and-mortar stores.
- ▶ Entity C uses a single warehouse to hold inventory that is used to fulfill e-commerce orders and to supply its stores. There is no distinction between inventory used to fulfil e-commerce orders or to supply the stores.
- ▶ Inventory that is held at the stores is primarily for display, with the majority of in-store purchases being fulfilled from the warehouse.
- ▶ Customers who purchase goods online can return them at store locations and vice versa.
- ▶ Entity C tracks sales and costs of sales for each store separately from its e-commerce sales and costs of sales.
- ▶ Although each store has a manager, Entity C's corporate management team runs the entire business from its corporate headquarters and evaluates the performance of the e-commerce platform and stores together.

CONCLUSION

Entity C determines that the warehouse and stores comprise a single asset group.

ANALYSIS

Entity C determines that there are significant interdependencies of revenues, a significant shared cost structure, and important synergies from operating the e-commerce business and the brick-and-mortar stores seamlessly as an integrated business. Therefore, despite the fact that sales and cost of sales are tracked for each store and for the e-commerce business, Entity C determines that the warehouse and stores comprise a single asset group.

EXAMPLE 3-5: IDENTIFYING ASSET GROUPS — RETAILER THAT PRIMARILY OPERATES THROUGH STORES**FACTS**

- ▶ Entity D is a retailer that sells its products primarily through brick-and-mortar stores.
- ▶ Entity D uses a central warehouse to hold inventory that supplies its stores, but much of the inventory is held at the store locations.
- ▶ Entity D tracks sales and direct costs of sales for each store separately.
- ▶ Each store has a separate management team; the performance of each store is evaluated based on the individual store's results.

CONCLUSION

Entity D determines that each store (and the assets and liabilities associated with that store) is a separate asset group. The asset group for the warehouse and corporate headquarters includes all other asset groups.

ANALYSIS

There are no significant interdependencies of revenues or important synergies between the stores, and the management team evaluates the performance of each store separately from the others. Therefore, despite the fact that the warehouse supplies inventory to the stores, Entity D determines that each store (and the assets and liabilities associated with that store, such as inventory, accounts receivable, accounts payable, and leases) is a separate asset group.

Entity D also concludes that the warehouse, corporate headquarters, and related assets do not have cash flows that are largely independent of the stores. Therefore, if a triggering event indicates the warehouse and corporate headquarters assets might be impaired, the asset group for testing the warehouse and corporate headquarters would include all stores. All lower-level asset groups (that is, all stores) must first be tested for impairment before testing the entity-level group that includes the warehouse and corporate headquarters.

3.2.1.1 Goodwill in an Asset Group



FASB REFERENCES

ASC 360-10-35-26

Goodwill is only included in an asset group if the asset group is (or includes) a reporting unit (see Section 4.2.1). Goodwill is **not** included in a lower-level asset group that includes only a part of a reporting unit.

Further, if goodwill is not included in an asset group, the estimates of future cash flows used to test that lower-level asset group for recoverability are not adjusted for the effect of excluding goodwill from the group. In other words, no adjustments are made to remove any potential cash flow premium that might be attributed to synergies related to the excluded goodwill; similarly, no adjustments are made to increase cash outflows to reflect costs that would be incurred absent synergies related to the excluded goodwill.

If there is goodwill in an asset group that is held and used, the long-lived assets are tested for impairment before goodwill (see Section 1.4.1).¹¹

BDO INSIGHT 3-3: THE ASSET GROUP IS GENERALLY NOT AT A HIGHER LEVEL THAN A REPORTING UNIT

The unit of account is different for testing goodwill for impairment than for testing long-lived assets. As discussed in Section 4.2.1, the unit of account for testing goodwill is the reporting unit, while the unit of account for testing long-lived assets is the asset group. In most cases, an asset group is part of a larger reporting unit, but sometimes a reporting unit and an asset group may be the same. However, we believe that an asset group generally cannot be larger than a reporting unit.



Determining the appropriate unit of account for an impairment test requires professional judgment based on the facts and circumstances.

¹¹ The order of impairment testing for a held-for-sale disposal group is different (see Section 1.4.2).

3.2.1.2 Debt in an Asset Group



FASB REFERENCES

ASC 360-10-35-29

Debt and other financing or nonoperating liabilities are generally excluded from an asset group when testing for impairment. This is because debt is typically not specific to a given asset group. For example, debt may be borrowed at the corporate level with debt payments being made from the consolidated cash flows of the entity. In such cases, the lowest level of identifiable cash flows excludes principal and interest payments.

Conversely, if debt is closely related to the group's assets, it might be appropriate to include the debt principal in an asset group. However, in such case, ASC 360 requires interest expense to be excluded from the asset group's estimated future cash flows. As such, if debt is included in an asset group, the undiscounted future cash flows generally only include the principal payments. Therefore, in these cases, the inclusion or exclusion of debt should not affect the recoverability test (see Section 3.2.3.1), because the undiscounted future cash flows are equal to the principal.

See Section 3.2.3.1.1.1 for guidance regarding the impairment testing of assets under development. In such cases, it is appropriate to include interest that will be capitalized in the undiscounted future cash flows.

BDO INSIGHT 3-4: DEBT RECOGNIZED AT A DISCOUNT IS INCLUDED AT ITS PRINCIPAL BALANCE

In some cases, debt is recognized at a discount. If such debt is included in the asset group, we do not believe it is necessary to factor in the unamortized discount. Instead, we believe that the entity can use the principal balance of the debt (rather than its carrying amount), as long as the undiscounted future cash flows also use principal payments.

If consistently applied, the inclusion or exclusion of debt should not affect the recoverability test.

3.2.1.3 Right of Use Assets and Lease Liabilities in an Asset Group



FASB REFERENCES

ASC 360-10-15-4 and ASC 842-20-35-9

Right-of-use (ROU) assets are within the scope of the ASC 360 impairment guidance. Therefore, a lessee must include ROU assets in an asset group (if applicable) when testing for impairment, regardless of whether the lease is an operating lease or a finance lease.

If an asset group that includes an ROU asset is impaired, the impairment is allocated pro rata to the long-lived assets in the asset group (including the ROU asset) based on the relative carrying amounts of the assets, subject to the individual fair value limitation (see Section 3.2.3.2.1).

For guidance on accounting for operating leases after ROU assets have been impaired, see Section 5.9 of BDO's Blueprint, [Accounting for Leases Under ASC 842](#).

BDO INSIGHT 3-5: THERE ARE MULTIPLE APPROACHES FOR INCLUDING LEASE LIABILITIES IN AN ASSET GROUP

For finance leases, the lease liabilities are excluded from the asset group because debt related to financing of long-lived assets generally is excluded (see Section 3.2.1.2). Because the finance lease liability is excluded from the asset group, the finance lease payments also are excluded when determining the undiscounted future cash flows of the asset group.

However, for operating leases, the guidance is less clear. ASC 842 and ASC 360 do not specify whether the related lease liability for operating leases should be included in an asset group for impairment testing purposes. We believe the approaches shown in the following table are acceptable.

	APPROACH A	APPROACH B	APPROACH C
In determining the carrying amount of the asset group:	Exclude operating lease liability	Include operating lease liability	Include operating lease liability
Step 1 (Section 3.2.3.1): In determining the undiscounted cash flows: ^{a, b}	Exclude lease payments	Include lease payments but exclude the portion related to interest accretion	Include lease payments with inclusion of the portion related to interest accretion
Step 2 (Section 3.2.3.2): In determining the fair value of the asset group under a discounted cash flow approach: ^{a, b, c}	Same approach as Step 1 above	Same approach as Step 1, but include the total lease payments (because the cash flows will be discounted)	Same approach as Step 1

Note a: Use entity-specific assumptions in Step 1 (see Section 3.2.3.1) and market-participant assumptions (highest and best use) in Step 2 (see Section 3.2.3.2).

Note b: Cash flows include variable lease payments not included in the measurement of the lease liability.

Note c: In allocating the impairment to the long-lived assets in the asset group (that is, the pro rata allocation subject to the individual fair value limitation — see Section 3.2.3.2.1), consider the ROU asset without the lease liability.

We believe the above approaches are acceptable because:

- ▶ For Approach A, the operating lease liability is akin to a financial liability and is measured the same way as finance lease liabilities. Therefore, the approach under ASC 360 must be the same whether the lease is an operating lease or a finance lease.
- ▶ For Approach B, as an operating lease, the related liability may be viewed as an operating liability rather than debt (see BC14 of ASU 2016-02, *Leases (Topic 842)*). Therefore, like other operating liabilities, the operating lease liability is included in determining the carrying amount of the asset group. However, the lease payments must exclude the portion related to interest accretion on the lease liability because it relates to capitalization or financing of the entity, not its operations, and ASC 360 requires that interest charges that will be expensed when incurred be excluded from the asset group's estimated future cash flows (see Section 3.2.1.2).
- ▶ Approach C is consistent with Approach B, except that the lease payments included in the undiscounted future cash flows are the total operating lease payments, which is appropriate because the operating lease cost is recognized as a single lease cost.

Because the different approaches treat the liability and related cash flows consistently (both are either included or excluded), the approach selected generally should not significantly change whether an asset group is impaired.

3.2.1.4 Operating Liabilities in an Asset Group

Operating liabilities (such as accounts payable) are generally included in an asset group when testing for impairment. However, because the estimated future cash flows for operating liabilities generally equal their carrying amounts, the inclusion or exclusion of operating liabilities in an asset group generally does not affect the recoverability test.

3.2.1.5 Asset Retirement Obligations in an Asset Group



FASB REFERENCES

ASC 360-10-35-18 through 35-19

The carrying amount of assets in an asset group might include amounts capitalized for asset retirement costs. However, any related asset retirement obligations are excluded from the carrying amount of the asset group, and the estimated future cash flows related to the asset retirement obligations are excluded from both the undiscounted future cash flows used in the Step 1 recoverability test (see Section 3.2.3.1) and the discounted future cash flows used to measure the asset group's fair value in Step 2 of the impairment test, if applicable (see Section 3.2.3.2).

If a quoted market price (rather than discounted cash flows) is used to determine the fair value of an asset in Step 2 of the impairment test, and that quoted market price considers the costs that will be incurred in retiring the asset, the fair value of the asset group must be increased by the fair value of the asset retirement obligation before comparing the fair value of the asset to its carrying amount in step 2 of the impairment test.

3.2.1.6 Deferred Taxes in an Asset Group

ASC 360 does not discuss whether the estimated future cash flows used in the impairment test should include or exclude income taxes.

BDO INSIGHT 3-6: DEFERRED TAXES IN AN ASSET GROUP

In practice, most entities perform the Step 1 recoverability test (see Section 3.2.3.1) using pretax amounts unless the income tax attributes of the assets and liabilities in the asset group strongly influence the cash flows of that asset group (such as when the asset's return depends significantly on income tax credits generated by the investment). If the estimated cash flows are determined using pretax amounts, the asset group's carrying amount must exclude deferred tax assets and liabilities related to the assets and liabilities in that asset group. If the estimated cash flows are determined using after-tax amounts, the related deferred tax assets and liabilities must be included in the carrying amount of the asset group.

When measuring an impairment under Step 2 (see Section 3.2.3.2), an entity must apply ASC 820 to determine the asset group's fair value. If an entity uses a present value technique, it must use market participant assumptions based on the asset group's highest and best use rather than entity-specific assumptions. If the highest and best use assumes the assets would continue to be used by the entity, we believe that the entity's assumptions regarding the inclusion or exclusion of taxes must be consistent with the Step 1 recoverability test. However, if the highest and best use assumes a sale of the asset group, it might be appropriate to consider whether a hypothetical sale would be structured as a taxable or nontaxable transaction (see Section 3.3.1.3).

3.2.1.7 Cumulative Translation Adjustments in an Asset Group



FASB REFERENCES

ASC 830-30-45-13 through 45-15

ASC 830-30-20: Foreign Entity

Cumulative translation adjustment (CTA) balances are **excluded** from an asset group that is being tested under the held-and-used assets' impairment model. This is because the CTA balance is recorded in accumulated other comprehensive income (AOCI) and is generally not reclassified to the income statement except upon the sale or substantially complete liquidation of the related investment (including an equity method investment) in the foreign entity (as defined in ASC 830, *Foreign Currency Matters*).

Foreign Entity

An operation (for example, subsidiary, division, branch, joint venture, and so forth) whose financial statements are both:

- a. Prepared in a currency other than the reporting currency of the reporting entity*
- b. Combined or consolidated with or accounted for on the equity basis in the financial statements of the reporting entity.*

3.2.1.8 Changes to Asset Groups

Changes to an asset group for impairment testing may be needed if an entity changes its operating structure and the way it uses its assets. For example, after a significant acquisition or disposal, the lowest level of identifiable cash flows might be different than before the acquisition or disposal. Similarly, if an entity stops using a building for its production activities and leases it to another party, the lowest level of identifiable cash flows related to the building might change. Changes to an asset group are accounted for prospectively as a change in estimate.



CHANGES IN ASSET GROUPS MIGHT REQUIRE AN IMPAIRMENT ASSESSMENT

The facts and circumstances that result in a change in an asset group might also indicate that the asset group is not recoverable. As such, when there is a change in asset groups, an entity must determine whether there has been a triggering event (see Section 3.2.2).

3.2.2 Timing of Impairment Test: Long-Lived Assets (Asset Groups) – Triggering Events



FASB REFERENCES

ASC 360-10-35-21

Long-lived assets include PP&E and intangible assets that are depreciated or amortized, respectively. Because these assets are depreciated or amortized, they are less likely to become impaired. Therefore, there is no annual impairment test for such assets.

Long-lived assets (asset groups) are tested for impairment **only** when events or changes in circumstances indicate that the carrying amount of the asset group might not be recoverable (sometimes referred to as a “triggering event”). Therefore, an entity does not need to routinely test long-lived assets (asset groups) for impairment, but it must have processes and controls to identify such events or changes in circumstances.

ASC 360 provides the following **examples** of events and circumstances that could necessitate an impairment test:

EXAMPLES OF POTENTIAL TRIGGERING EVENTS FOR LONG-LIVED ASSETS

	Declining Market Price	▶ A significant decrease in the market price of a long-lived asset (asset group)
	Adverse Changes	▶ A significant adverse change in • The extent or manner in which a long-lived asset (asset group) is being used • The physical condition of an asset (asset group) • the legal or business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator
	Excess Costs	▶ An accumulation of costs significantly greater than the amount originally expected for the acquisition or construction of a long-lived asset (asset group)
	Continuing Losses	▶ A current period operating or cash flow loss combined with a history of operating or cash flow losses associated with a long-lived asset (asset group) ▶ A projection or forecast that demonstrates continuing losses associated with a long-lived asset (asset group)
	Industry and market considerations	▶ A current expectation that, more-likely-than-not, ¹² a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life

¹² The phrase “more-likely-than-not” refers to a level of likelihood that is more than 50 percent.



ALL FACTS AND CIRCUMSTANCES MUST BE CONSIDERED

The examples in the preceding table are not an exhaustive list, and no single factor is conclusive. Additionally, the absence of a single discrete triggering event does not preclude the requirement to perform an impairment test, as a combination of adverse factors that develop over time may also indicate that the carrying amount of an asset group might not be recoverable. An entity must consider all relevant information, including positive and mitigating events and circumstances. Whenever the facts and circumstances indicate that the carrying amount of the asset (asset group) might not be recoverable, the entity must perform the impairment test (see Section 3.2.3).

The SEC staff frequently questions registrants on the timing of recognized impairments of long-lived assets, particularly when impairments are recorded shortly before or contemporaneously with a disposition, restructuring, or other strategic transaction. In such cases, the staff often asks registrants to explain why the impairment was recognized in the current period and not earlier, and what specific events or changes in circumstances triggered the impairment assessment.

Determining whether there has been a triggering event requires the use of professional judgment based on the facts and circumstances. Entities should design processes and controls to identify impairment indicators on a timely basis and should contemporaneously document management's evaluation of relevant events and circumstances.



TESTING OTHER ASSETS FOR IMPAIRMENT IF A LONG-LIVED ASSET IMPAIRMENT TRIGGERING EVENT HAS OCCURRED

If a long-lived assets impairment triggering event has occurred, it may also be necessary to test other assets, including goodwill, for impairment. If goodwill and another asset (asset group) are tested for impairment at the same time, the entity must apply the appropriate order of impairment testing (see Section 1.4).

BDO's publication, [Accounting and Reporting in Times of Economic Uncertainty](#), provides a summary of other accounting topics that may be relevant to an entity when a triggering event has occurred.

3.2.3 Performing the Impairment Test: Long-Lived Assets (Asset Groups)



FASB REFERENCES

ASC 360-10-35-16 through 35-17 and ASC 360-10-35-21

Triggering event(s)

Step 1: Recoverability test –
undiscounted cash flows

Step 2: Compare fair value to
carrying amount

Long-lived assets that are held and used are tested for impairment only if events or changes in circumstances indicate that their carrying amounts might not be recoverable (see Section 3.2.2). Upon such a triggering event, the entity performs a two-step test. In Step 1, it assesses whether the carrying amount of the asset (asset group) is recoverable¹³ (see Section 3.2.3.1). If the carrying amount is not recoverable, in Step 2 the entity separately measures the impairment (see Section 3.2.3.2).

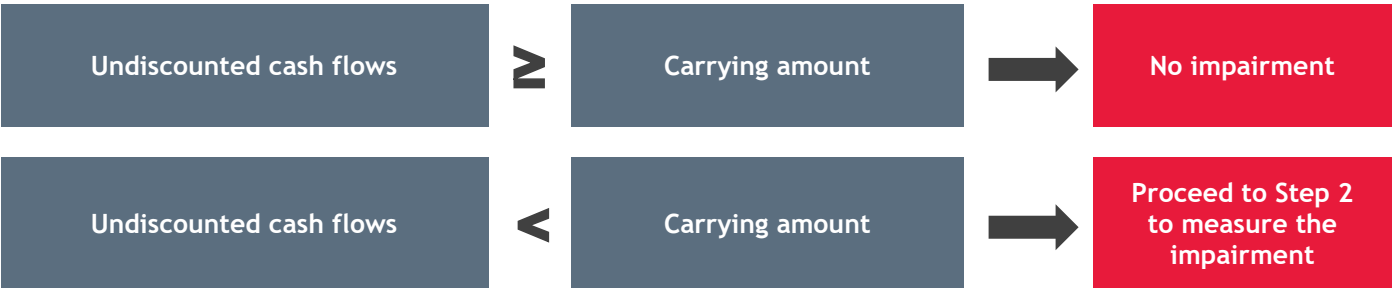
¹³ If long-lived assets are recoverable under Step 1 of the impairment test, Step 2 is not performed; therefore, no impairment is recognized.

3.2.3.1 Step 1: Recoverability Test – Undiscounted Cash Flows

 FASB REFERENCES

ASC 360-10-35-17

If an impairment test is required (see Section 3.2.2), the first step is to assess whether the long-lived asset (asset group) is recoverable. To do this, the entity compares the asset (asset group)’s carrying amount to the **undiscounted** cash flows expected from the asset (asset group)’s use and eventual disposal. If the undiscounted future cash flows are greater than or equal to the carrying amount, the test is complete, and no impairment is recognized. Conversely, if the undiscounted future cash flows are less than the carrying amount, the entity proceeds to Step 2 (see Section 3.2.3.2) to measure the impairment.



 **STEP 1 OF THE LONG-LIVED ASSETS IMPAIRMENT TEST CANNOT BE BYPASSED**

An entity cannot bypass Step 1 of the long-lived assets impairment test. Therefore, an entity cannot recognize an impairment if the undiscounted future cash flows are greater than or equal to the carrying amount. As a result, it is possible for the carrying amount an asset group to be greater than its fair value without recognizing an impairment (see Section 3.2.3.2).

When estimating the undiscounted future cash flows of an asset group for the recoverability test, an entity must first determine the unit of account (see Section 3.2.1) and then apply the following guidance:

GUIDANCE FOR STEP 1 UNDISCOUNTED FUTURE CASH FLOWS	REFERENCE
Include only future cash flows that are directly associated with and are expected to arise from the use and eventual disposition of the asset group, based on the existing service potential of the asset group.	Section 3.2.3.1.1
Use the entity’s own (entity-specific) assumptions about the asset group’s use and eventual disposition.	Section 3.2.3.1.2
Include future cash flows for the remaining useful life of the primary asset in the group.	Section 3.2.3.1.3
Exclude interest charges that will be expensed when incurred.	Section 3.2.1.2

3.2.3.1.1 Future Cash Flows Based on the Existing Service Potential of the Asset Group



FASB REFERENCES

ASC 360-10-35-29, ASC 360-10-35-33, and ASC 835-20-25-5

The undiscounted future cash flows used for the recoverability test must include only the future cash inflows and outflows that are directly associated with using and eventually disposing of the asset group. For assets that are complete (or substantially complete), the future cash flows are based on the **existing service potential** of the asset group. As such, the estimated cash inflows and outflows **cannot** include any future capital expenditures that would increase the service potential of the asset group. However, the cash flows do include any future expenditures necessary to maintain the asset group's existing service potential, including replacing component parts of the primary asset (for example, the roof of a building), if necessary, and replacing component assets in the asset group (that is, assets other than the primary asset).

Consistent with this principle, if an asset group is operating at full capacity, it would not be appropriate to project increases in the forecasted production amounts. However, if the asset group is not operating at full capacity, it may be appropriate to project increases, as long as the projected growth remains within the asset group's existing service potential.

BDO INSIGHT 3-7: FUTURE CASH FLOWS FROM CUSTOMER RELATIONSHIPS ARE BASED ON EXISTING SERVICE POTENTIAL

At the assessment date, an asset group might include recognized customer relationship intangible assets (that arose from a previous asset acquisition or business combination), as well as unrecognized customer relationship intangible assets (that were internally generated). Additionally, an entity may expect to generate new customer relationships in the future.

Future cash flows from existing customer relationship intangible assets (both recognized and unrecognized) are included in the undiscounted future cash flows for the recoverability test. Additionally, if anticipated new customer relationships can be supported from the existing service potential of the asset group, the future cash flows from those customer relationships are also included in the undiscounted future cash flows for the recoverability test. However, if obtaining new customer relationships would require an increase to the asset group's service potential (such as, by capital expansion), any corresponding future cash flows are excluded from the projections used in the recoverability test.

If a customer relationship intangible asset is the primary asset in an asset group, we believe that the estimated life of the asset group should be based on the customer relationships that exist as of the assessment date (both recognized and unrecognized). The future cash flows from new customer relationships that are expected to develop after the assessment date are reflected in the projections through the end of the estimated life of the asset group. However, future cash flows from new customer relationships that are expected to occur after the asset group's estimated life are excluded from the future cash flows (except as they potentially affect the expected residual value of the customer relationship asset at the end of the estimated life).

3.2.3.1.1.1 Future Cash Flows for Assets Under Development



FASB REFERENCES

ASC 360-10-35-29, ASC 360-10-35-34 through 35-35, and ASC 360-10-55-33 through 55-34

An asset group might include long-lived assets that are under development. If so, the undiscounted future cash flows used in the recoverability test:

- ▶ Are based on the service potential that the asset group is expected to have once development is substantially complete
- ▶ Include all expenditures necessary to complete the long-lived assets being developed, including interest that is capitalized as part of the cost (see Section 3.2.1.2)
- ▶ (If the asset group is in use) include the future expenditures necessary to maintain the existing service potential of the group.



INCLUDING INTEREST IN FUTURE CASH FLOWS

The requirement to include capitalized interest in the undiscounted future cash flows is limited to cash flows for assets under development. Otherwise, ASC 360-10-35-29 requires that interest expense be excluded from the undiscounted future cash flows (see Section 3.2.1.2).

BDO INSIGHT 3-8: MEANING OF “SUBSTANTIALLY COMPLETE”

ASC 360 does not provide guidance for determining when a long-lived asset under development is substantially complete. We believe that the meaning of “substantially complete” in ASC 360 is consistent with the usage of that term in ASC 835-20-25-5, which indicates that an asset is substantively complete when it is ready for its intended use.

Example 3-6 illustrates a scenario when an asset group includes assets under development when events or changes in circumstances indicate that the carrying amount of the asset group might not be recoverable.

EXAMPLE 3-6 (ADAPTED FROM ASC 360-10-55-34): UNDISCOUNTED FUTURE CASH FLOWS WHEN AN ASSET GROUP INCLUDES ASSETS UNDER DEVELOPMENT

FACTS

- ▶ Based on changes in events and circumstances, an entity that mines and sells phosphate determines that an asset group that includes the mine and related long-lived assets (plant and equipment) might not be recoverable (see Section 3.2.2).
- ▶ Accordingly, the entity must test the recoverability of the asset group.
- ▶ Deposits from the mined rock must be processed to extract the phosphate. As the active mining area expands, new processing plants will be constructed near the production area. Accordingly, depending on the size and life of the mine, extracting the minable deposits may require building more processing plants.

CONCLUSION

The undiscounted future cash flows used in the recoverability test must include the future expenditures necessary to build all the required processing plants.

ANALYSIS

As discussed above, a long-lived asset that is under development may be part of an asset group that is in use. In that situation, estimates of future cash flows used to test the asset group's recoverability include the future expenditures necessary to maintain the existing service potential of the asset group as well as the future expenditures necessary to substantially complete the asset under development.

Therefore, in testing the recoverability of the asset group (the mine and related plant and equipment), the estimates of future cash flows from its commercially minable phosphate deposits would include cash flows associated with future expenditures necessary to build all the required processing plants (not just those that exist as of the evaluation date).

3.2.3.1.1.2 Site Restoration and Environmental Exit Costs**FASB REFERENCES**

ASC 360-10-55-1 through 55-18

In some cases, ASC 410, *Asset Retirement and Environmental Obligations*, may require recognition of an asset retirement obligation for environmental exit costs. Section 3.2.1.5 discusses how asset retirement obligations are considered in the ASC 360 impairment test.

In other cases, environmental exit costs are not recognized in the financial statements unless they are probable and estimable. For environmental exit costs that have not been recognized as a liability, determining whether to include or exclude those costs from the undiscounted future cash flows for the Step 1 recoverability test depends on what management intends to do with the asset. If management is considering multiple alternative courses of action, or if a range of possible future cash flows is estimated, the likelihood of those possible outcomes must be factored in (for example, by applying a probability-weighted approach).

ASC 360 provides several examples of when an entity would include or exclude environmental exit costs that have not been recognized as a liability in the financial statements when estimating future cash flows, including:

**INCLUDE IN UNDISCOUNTED FUTURE CASH FLOWS**

- ▶ Management expects remediation costs to be incurred, but uncertainties exist in the application of laws. Management must factor in the likelihood of possible outcomes.
- ▶ Useful life of the asset is limited and the entity will incur environmental remediation costs upon disposal or sale.
- ▶ Continuing losses may require asset disposal or sale, and the entity will incur environmental remediation costs upon disposal or sale.

**EXCLUDE FROM UNDISCOUNTED FUTURE CASH FLOWS**

- ▶ Management intends to operate the asset, future cash flows exceed the carrying amount, and management has no expectation of net cash outflows upon disposition.
- ▶ Management expects to operate the asset, the asset is generating positive cash flows, profitability is expected to continue, and there are no constraints on the asset's economic life.
- ▶ The asset has a finite life, but remediation costs will only be incurred if the asset is sold or abandoned,



INCLUDE IN UNDISCOUNTED FUTURE CASH FLOWS

- ▶ Management intends to abandon or close the asset, and the entity will incur environmental remediation costs upon abandonment or closure.
- ▶ Management intends to sell the asset in the future, and the entity will incur environmental remediation costs upon sale.
- ▶ Management expects to operate the asset for the remainder of its useful life, and asset retirement costs are incurred over the life of the asset (for example, the operation of a landfill).



EXCLUDE FROM UNDISCOUNTED FUTURE CASH FLOWS

- and management does not intend to sell or abandon the asset.
- ▶ Management expects to sell the asset, but the sale will not result in environmental remediation costs.¹⁴

3.2.3.1.2 Undiscounted Future Cash Flows Based on Entity-Specific Assumptions



FASB REFERENCES

ASC 360-10-35-30 and ASC 360-10-S99-2

The undiscounted future cash flows used for the recoverability test must incorporate the entity's own (entity-specific) assumptions about using and eventually disposing of the asset group. The assumptions must consider all available evidence and must be reasonable in relation to assumptions used by the entity for other purposes (such as internal budgets, projections, incentive compensation plans, deferred tax realization assessments, and goodwill impairment tests). If the entity is exploring various alternatives to recover the carrying amount of the asset group, or if a range of possible future cash flows is estimated, the likelihood of those possible outcomes must be factored in (for example, by applying a probability-weighted approach, as illustrated in Example 3-7).

EXAMPLE 3-7 (ADAPTED FROM ASC 360-10-55-23 THROUGH 55-29): PROBABILITY-WEIGHTED FUTURE CASH FLOWS

FACTS

- ▶ An entity owns a manufacturing facility with a carrying amount of \$48 million that must be tested for recoverability.
- ▶ Management is considering two alternative courses of action to recover the carrying amount:
 - Sell the facility in two years
 - Continue using the facility and sell it in ten years at the end of its remaining useful life
- ▶ Based on entity-specific assumptions regarding future operating performance and market conditions, the expected undiscounted cash flows associated with each alternative are \$41.0 million if sold in two years and \$48.7 million if sold in ten years.

¹⁴ Although the environmental remediation costs are excluded from the recoverability test, the fair value of the asset is likely to be affected by the existence of those costs. The diminished fair value is considered in estimating the cash flows expected to arise from the eventual sale of the asset.

CONCLUSION

Because the probability-weighted expected undiscounted cash flows of \$44.1 million are less than the facility's carrying amount of \$48 million, the asset fails the recoverability test. Accordingly, the entity must proceed to measure the impairment (see Section 3.2.3.2).

ANALYSIS

Management calculates the probability weighted future cash flows as follows:

COURSE OF ACTION	POSSIBLE CASH FLOWS (UNDISCOUNTED) (IN MILLIONS)	PROBABILITY	EXPECTED CASH FLOWS (UNDISCOUNTED) (IN MILLIONS)
Sell in 2 years	\$ 41.0	60%	\$ 24.6
Sell in 10 years	48.7	40%	19.5
Total			\$ 44.1

Because the probability-weighted expected undiscounted cash flows of \$44.1 million are less than the facility's carrying amount of \$48 million, the asset fails the recoverability test.


CASH FLOW PROJECTIONS FROM STEP 1 MIGHT NEED TO BE ADJUSTED BEFORE USING THEM IN STEP 2

Because the undiscounted future cash flows used in the Step 1 test must include **entity-specific** assumptions, an entity may need to adjust these cash flow projections if it uses them in a discounted future cash flows model to determine the fair value of the asset group in Step 2, because determining fair value requires the use of **market participant** (rather than entity-specific) assumptions (see Section 3.2.3.2).

In SAB Topic 5.CC, the SEC staff reiterated the need for consistency between entity-specific assumptions and provided the following example of inconsistent assumptions:


SEC STAFF GUIDANCE

Excerpt from [SAB Topic 5.CC, Impairments](#) (reprinted in ASC 360-10-S99-2)

Question 3: Has the staff expressed any views with respect to company-determined estimates of cash flows used for assessing and measuring impairment of assets under FASB ASC Topic 360?

Interpretive Response: In providing guidance on the development of cash flows for purposes of applying the provisions of that Topic, FASB ASC paragraph 360-10-35-30 indicates that “estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall incorporate the entity’s own assumptions about its use of the asset (asset group) and shall consider all available evidence. The assumptions used in developing those estimates shall be reasonable in relation to the assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections, accruals related to incentive compensation plans, or information communicated to others.”

The staff recognizes that various factors, including management's judgments and assumptions about the business plans and strategies, affect the development of future cash flow projections for purposes of applying FASB ASC Topic 360. The staff, however, cautions registrants that the judgments and assumptions made for purposes of applying FASB ASC Topic 360 must be consistent with other financial statement calculations and disclosures and disclosures in MD&A. The staff also expects that forecasts made for purposes of applying FASB ASC Topic 360 be consistent with other forward-looking information prepared by the company, such as that used for internal budgets, incentive compensation plans, discussions with lenders or third parties, and/or reporting to management or the board of directors.

For example, the staff has reviewed a fact pattern where a registrant developed cash flow projections for purposes of applying the provisions of FASB ASC Topic 360 using one set of assumptions and utilized a second, more conservative set of assumptions for purposes of determining whether deferred tax valuation allowances were necessary when applying the provisions of FASB ASC Topic 740, Income Taxes. In this case, the staff objected to the use of inconsistent assumptions.

In addition to disclosure of key assumptions used in the development of cash flow projections, the staff also has required discussion in MD&A of the implications of assumptions. For example, do the projections indicate that a company is likely to violate debt covenants in the future? What are the ramifications to the cash flow projections used in the impairment analysis? If growth rates used in the impairment analysis are lower than those used by outside analysts, has the company had discussions with the analysts regarding their overly optimistic projections? Has the company appropriately informed the market and its shareholders of its reduced expectations for the future that are sufficient to cause an impairment charge? The staff believes that cash flow projections used in the impairment analysis must be both internally consistent with the company's other projections and externally consistent with financial statement and other public disclosures.

3.2.3.1.3 Future Cash Flows for the Remaining Useful Life of the Primary Asset of an Asset Group



FASB REFERENCES

ASC 360-10-35-31 through 35-32

The undiscounted future cash flows used for the recoverability test must be projected for the remaining useful life of the primary asset in the group.

Primary Asset

"... the principal long-lived tangible asset being depreciated or intangible asset being amortized that is the most significant component asset from which the asset group derives its cash-flow-generating capacity. The primary asset of an asset group therefore cannot be land or an intangible asset not being amortized."

ASC 360 provides several factors to consider when determining which asset is the primary asset of a group:

- ▶ Whether other assets in the group would have been acquired by the entity without the asset
- ▶ The level of investment that would be required to replace the asset

- ▶ The remaining useful life of the asset relative to other assets in the group. (If the primary asset is not the asset in the group with the longest remaining useful life, estimates of future cash flows for the group must assume that the asset group will be sold at the end of primary asset's remaining useful life.)

Appropriately identifying the primary asset is essential for the following reasons:

- ▶ The undiscounted future cash flows of the asset group used in the recoverability test only include the projected income and expenses of the asset group during the **primary asset's** estimated useful life.
- ▶ The undiscounted future cash flows used in the recoverability test include any expenditures necessary to maintain the asset group's existing service potential, including replacing component parts of the **primary asset** (for example, the roof of a building), if necessary, and replacing component assets in the asset group (that is, assets other than the primary asset).
- ▶ If the primary asset is not the asset with the longest remaining useful life, the undiscounted cash flow estimates must also include any estimated sales proceeds from the eventual disposition of the asset group at the end of the **primary asset's** useful life.

BDO INSIGHT 3-9: POTENTIAL BANKRUPTCY OR SUBSTANTIAL DOUBT ABOUT THE ENTITY'S ABILITY TO CONTINUE AS A GOING CONCERN

For some entities, there might be substantial doubt about an entity's ability to continue as a going concern, or an entity might be contemplating reorganizing under bankruptcy law. If the financial statements continue to be presented on a going-concern basis (as opposed to the liquidation basis) the entity must project its undiscounted future cash flows over the estimated remaining useful life of the primary asset in the group. There is no requirement to limit the projected cash flows to a shorter period.

However, all facts and circumstances must be considered when forming the projections, including the reasons why there is substantial doubt about the entity's ability to continue as a going concern or why it is contemplating reorganizing under bankruptcy law. If the entity is exploring various alternatives to recover the carrying amount of the asset group, the likelihood of those possible outcomes must be factored in (for example, by applying a probability-weighted approach, as illustrated in Example 3-7).

3.2.3.2 Step 2: Compare Fair Value of Asset Group to its Carrying amount



FASB REFERENCES

ASC 360-10-35-17, ASC 360-10-35-20, ASC 360-10-35-28, and ASC 360-10-35-36

If events and circumstances indicate a potential impairment (see Section 3.2.2), the entity performs a two-step impairment test. In Step 1, it assesses whether the carrying amount of the asset (asset group) is recoverable (see Section 3.2.3.1). If the carrying amount is not recoverable, in Step 2 the entity separately measures the impairment. To measure the impairment, the entity subtracts the asset group's fair value from its carrying amount.

Carrying amount of the asset group



Fair value of the asset group



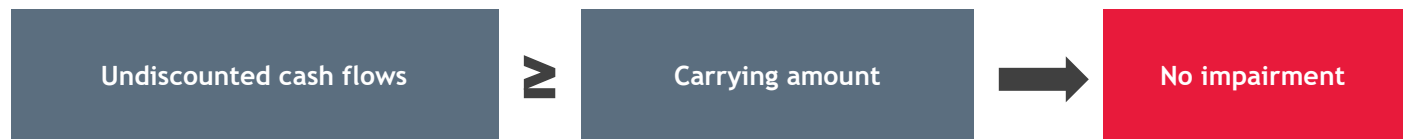
Impairment

The impairment is allocated to the long-lived assets in the asset group (see Section 3.2.3.2.1). If an impairment is recognized, the adjusted carrying amount of each impaired asset becomes the new cost basis, which must be depreciated or amortized over the asset's remaining useful life. Once recognized, an impairment cannot be reversed.



STEP 1 OF THE LONG-LIVED ASSETS IMPAIRMENT TEST CANNOT BE BYPASSED

An entity cannot bypass Step 1 of the long-lived assets impairment test (see Section 3.2.3.1). Therefore, an entity cannot recognize an impairment if the undiscounted future cash flows are greater than or equal to the carrying amount. As a result, it is possible for the carrying amount of an asset group to be greater than its fair value without recognizing an impairment.



To measure the fair value of an asset group, an entity must apply ASC 820. In many cases, using an expected present value technique will be appropriate to estimate fair value, but other methods may also be appropriate. An entity must consider the facts and circumstances when determining the appropriate method to use. If an entity uses a present value technique, it must use market participant assumptions based on the asset group's highest and best use, rather than entity-specific assumptions. As a result, the cash flow projections used in Step 2 may differ from the projections used in Step 1, for reasons other than just discounting. However, an entity is not precluded from using its own assumptions if there is no information that indicates that market participants would use different assumptions.

If the highest and best use assumes that the assets would continue to be used by the entity, we believe that the entity's assumptions regarding the inclusion or exclusion of taxes must be consistent with the Step 1 test. However, if the highest and best use assumes a sale of the asset group, it might be appropriate to consider whether a hypothetical sale would be structured as a taxable or nontaxable transaction (see Section 3.3.1.3).



CASH FLOW PROJECTIONS FROM STEP 1 MIGHT NEED TO BE ADJUSTED BEFORE USING THEM IN STEP 2

Because the undiscounted future cash flows used in the Step 1 test must include **entity-specific** assumptions, an entity may need to adjust these cash flow projections if it uses them in a discounted future cash flows model to determine the fair value of the asset group in Step 2, because determining fair value requires the use of **market participant** (rather than entity-specific) assumptions (see Section 3.2.3.2).

BDO INSIGHT 3-10: LONG-LIVED ASSETS SUBJECT TO NONRECOURSE DEBT

Long-lived assets might be subject to nonrecourse debt. The existence of nonrecourse debt does not affect the fair value measurement of the long-lived assets, even though those assets might be put to the lender to satisfy the debt obligation. Rather, any potential gain on the settlement of debt is a separate transaction that is only recognized when the debt is extinguished.¹⁵ See Section 6.2.3 of BDO's Blueprint, [Issuer's Accounting for Complex Financial Instruments](#), for the accounting for debt extinguishments.

¹⁵ Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, B34

3.2.3.2.1 Allocating Impairments to an Asset Group



FASB REFERENCES

ASC 360-10-35-20, ASC 360-10-35-28, and ASC 360-10-55-20 through 55-22

If an impairment must be recognized, the loss is allocated only to the long-lived assets in the asset group that are within the scope of ASC 360. Other assets in the asset group that are outside the scope of ASC 360 (such as goodwill, indefinite-lived intangible assets, and current assets) are subject to other U.S. GAAP and are not adjusted. This is because ASC 360 presumes that such assets are evaluated and remeasured, if required, under their respective guidance (see Section 1.4.3).

The allocation of the impairment to the long-lived assets within the asset group is typically pro rata based on the relative carrying amounts of those assets. However, if the fair value of an individual long-lived asset is determinable without undue cost and effort, the impairment allocated to that asset cannot reduce the carrying amount below its fair value (see Example 3-9).

If an impairment is recognized, the adjusted carrying amount of each impaired asset becomes its new cost basis, which must be depreciated or amortized over the asset's remaining useful life. Once recognized, an impairment cannot be reversed.

Examples 3-8 and 3-9 illustrate how an impairment would be allocated to an asset group.

EXAMPLE 3-8 (ADAPTED FROM ASC 360-10-55-20 THROUGH 55-22): ALLOCATION OF IMPAIRMENT

FACTS

- ▶ An entity owns a manufacturing facility that is part of asset group that must be tested for recoverability.
- ▶ The asset group includes long-lived assets (Assets A-D), none of which have a fair value that is determinable without undue cost and effort.
- ▶ The asset group also includes inventory measured using first-in, first-out (FIFO), which is reported at the lower of cost and net realizable value in accordance with ASC 330, and other current assets and liabilities that are not in the scope of ASC 360.
- ▶ The \$2.75 million carrying amount of the asset group is not recoverable and exceeds its fair value by \$600,000.

CONCLUSION

The carrying amounts of the assets and liabilities that are not in the scope of ASC 360 are not adjusted. The impairment of \$600,000 is allocated pro rata to the long-lived assets within the group that are in the scope of ASC 360.

ANALYSIS

Because the asset group failed the recoverability test (Step 1), it must be measured for impairment (Step 2). Thus, the entity subtracts the asset group's fair value from its carrying amount. The resulting \$600,000 loss is allocated only to the long-lived assets in the asset group that are within the scope of ASC 360, as follows (in thousands):

ASSET GROUP	CARRYING AMOUNT	PRO RATA ALLOCATION	ALLOCATION OF IMPAIRMENT	ADJUSTED CARRYING AMOUNT
Current Assets	\$ 400	—%	\$ —	\$ 400
Liabilities	(150)	—	—	(150)
Long-lived Assets				
Asset A	590	24%	(144)	446
Asset B	780	31%	(186)	594
Asset C	950	38%	(228)	722
Asset D	180	7%	(42)	138
Total Long-Lived Assets	2,500	100%	(600)	1,900
Net Assets	\$ 2,750	100%	\$ (600)	\$ 2,150

If the fair value of individual assets could be determined without undue cost and effort, the entity would be required to verify that the impairment allocated to an individual asset did not exceed its fair value. However, in this case, none of the individual long-lived assets have a fair value that is determinable without undue cost and effort.

EXAMPLE 3-9 (ADAPTED FROM ASC 360-10-55-20 THROUGH 55-22): ALLOCATION OF IMPAIRMENT

FACTS

Assume the same facts as in Example 3-8, except that the fair value of Asset C of \$822,000 was determinable without undue cost and effort.

CONCLUSION

The excess impairment initially allocated to Asset C is redistributed on a pro rata basis to Assets A, B, and D.

ANALYSIS

Because the fair value of Asset C is determinable without undue cost and effort, the impairment allocated to that asset cannot reduce the carrying amount below its fair value. Therefore, the excess impairment (\$100,000) initially allocated to Asset C would be reallocated to the other long-lived assets using the relative adjusted carrying amounts of those assets, as follows (in thousands):

LONG-LIVED ASSETS OF ASSET GROUP	ADJUSTED CARRYING AMOUNT FROM EXAMPLE 3-8	PRO RATA REALLOCATION	REALLOCATION OF EXCESS IMPAIRMENT	ADJUSTED CARRYING AMOUNT AFTER REALLOCATION
Asset A	\$ 446	38%	\$ (38)	\$ 408
Asset B	594	50%	(50)	544
Asset D	138	12%	(12)	126
Subtotal	1,178	100%	(100)	1,078
Asset C	722		100	822
Total Long-Lived Assets	\$ 1,900		\$ —	\$ 1,900

3.2.3.3 Reassessing Useful Lives



FASB REFERENCES

ASC 360-10-35-22

When events and changes in circumstances indicate that long-lived assets (asset group) might be impaired, it might also be necessary to adjust estimated useful lives for depreciation and amortization, whether or not an impairment is recognized. Any adjustments to the estimated useful lives of long-lived assets, or changes in methods of depreciation or amortization, must be accounted for prospectively as a change in estimate in accordance with ASC 250-10.

Any changes in the remaining useful lives of long-lived assets must be considered when developing estimates of the future cash flows used to test the asset group for recoverability. However, a change in accounting method or useful life would only be made after completing the impairment test.

Section 3.4 includes SEC staff guidance on revising useful lives for an asset to be abandoned.

3.2.3.4 Impairment Test - Long-Lived Assets to be Exchanged or Distributed to Owners in a Spinoff



FASB REFERENCES

ASC 360-10-40-4

ASC 505-60-20: Spinoff

A long-lived asset to be distributed to owners in a spinoff is accounted for as held and used until it is disposed of.

Spinoff

“The transfer of assets that constitute a business by an entity (the spinnor) into a new legal spun-off entity (the spinnee), followed by a distribution of the shares of the spinnee to its shareholders, without the surrender by the shareholders of any stock of the spinnor.”

As such, the undiscounted future cash flows used in Step 1 should be based on the asset’s remaining useful life, assuming the spinoff will not occur. If the asset (asset group) is not recoverable, any impairment must be recognized before transferring the long-lived assets to the spinnee. Furthermore, the spinnor must recognize an additional loss on disposal if the carrying amount of the disposal group exceeds its fair value at the date of the transfer.

See Section 7.5.1.5 of BDO’s Blueprint, [Control and Consolidation Under ASC 810](#) for the accounting for spinoffs and other nonreciprocal transactions to owners.

3.3 ASSETS HELD FOR SALE



FASB REFERENCES

ASC 310-20-35-12D, ASC 310-20-40-12, ASC 360-10-35-6, ASC 360-10-35-37 through 35-43

ASC 360-10-20: Disposal Group

Assets held for sale¹⁶ are accounted for differently than assets that are held and used by an entity. If an asset meets the held-for-sale criteria, it is no longer depreciated or amortized. Additionally, an asset (disposal group)¹⁷ that is held for sale is no longer subject to impairment testing. Instead, the asset (disposal group) is measured at the lower of its (i) carrying amount or (ii) fair value less costs to sell, in the period it meets the held-for-sale criteria.

However, before measuring the fair value of a disposal group, the carrying amounts of any assets in the disposal group that are outside the scope of ASC 360 must be adjusted in accordance with other U.S. GAAP (see Section 1.4.3). Individual assets that are not tested for impairment under ASC 350 or ASC 360 are tested first, followed by indefinite-lived intangible assets (see Chapter 2) and goodwill (see Chapter 4). The disposal group is tested last. Thus, the order of impairment testing for a disposal group that is held for sale is different than for an asset group that is held and used (see Section 1.4.1).

ASC 360 defines costs to sell as follows:

Costs to Sell

... the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made. Those costs include broker commissions, legal and title transfer fees, and closing costs that must be incurred before legal title can be transferred. Those costs exclude expected future losses associated with the operations of a long-lived asset (disposal group) while it is classified as held for sale. Expected future operating losses that marketplace participants would not similarly consider in their estimates of the fair value less cost to sell of a long-lived asset (disposal group) classified as held for sale shall not be indirectly recognized as part of an expected loss on the sale by reducing the carrying amount of the asset (disposal group) to an amount less than its current fair value less cost to sell. If the sale is expected to occur beyond one year as permitted in limited situations by paragraph 360-10-45-11, the cost to sell shall be discounted.

Subsequently, the carrying amount of an asset or disposal group that is held for sale is remeasured each reporting period in which there are changes to the estimated fair value less costs to sell. Adjustments are made for both positive and negative changes, so the asset or disposal group continuously reflects the lower of its initial carrying amount (when it was initially classified as held for sale) and the current estimate of its fair value less costs to sell. (However, an entity cannot recognize gains in excess of the losses previously recognized.)¹⁸ The changes in carrying amount are reflected as gains or losses in the income statement.

¹⁶ To be classified as held for sale there are several criteria that must be met (see Section 3.3.2).

¹⁷ If a group of assets will be disposed of together, the unit of account is a disposal group.

¹⁸ ASC 310-20, *Receivables, Nonrefundable Fees and Other Costs*, states that the valuation allowance for credit losses on a loan recognized under ASC 326 is not a separate element of the cost basis of a foreclosed property. Therefore, even if there is a subsequent increase in the fair value less costs to sell of a foreclosed property, the lender must exclude any previous credit losses recognized on the loan when measuring the cumulative loss previously recognized.

Examples 3-10 and 3-11 illustrate these concepts.

EXAMPLE 3-10 REMEASURING A HELD-FOR-SALE ASSET'S CARRYING AMOUNT

FACTS

- ▶ An entity owns equipment that meets the held-for-sale criteria (see Section 3.3.2) on November 1, 20X1.
- ▶ The equipment's carrying amount is \$2.0 million and its estimated fair value is \$2.1 million.
- ▶ The entity estimates that it will incur \$0.3 million of costs to sell the equipment.

CONCLUSION AND ANALYSIS

When the equipment is classified as held for sale on November 1, 20X1, the entity stops depreciating the equipment and remeasures it to the lower of its carrying amount (\$2.0 million) or fair value less costs to sell (\$1.8 million). As a result, the entity adjusts the carrying amount from \$2.0 million to \$1.8 million and recognizes a loss of \$0.2 million.

EXAMPLE 3-11 REMEASURING A HELD-FOR-SALE ASSET'S CARRYING AMOUNT

FACTS

Assume the same facts as in Example 3-10. In addition:

- ▶ After marketing the equipment for two months, on December 31, 20X1, the entity estimates that it will be able to sell the equipment for \$2.2 million and that its costs to sell it will be \$0.1 million.

CONCLUSION AND ANALYSIS

On December 31, 20X1, the entity must remeasure the held-for-sale equipment so it reflects the lower of its carrying amount when it was initially classified as held for sale (\$2.0 million) and the current estimate of fair value less costs to sell (\$2.1 million). As a result, the entity adjusts the carrying amount from \$1.8 million (see Example 3-10) to \$2.0 million, thereby reversing the prior loss and recognizing a gain of \$0.2 million. An entity cannot recognize gains in excess of the losses previously recognized.

Sometimes the difference between the carrying amount of the disposal group and its fair value less costs to sell might exceed the carrying amount of the long-lived assets in the group. In such cases, a question arises as to whether the entire difference must be recognized as a loss or if the loss should be limited to the carrying amount of the long-lived assets. The SEC Staff provided the following guidance in regard to this question:



SEC STAFF GUIDANCE

Remarks before the 2008 AICPA National Conference on Current SEC and PCAOB Developments

Adam Brown, Professional Accounting Fellow, Office of the Chief Accountant

December 8, 2008

The first issue deals with the impairment or disposal of long-lived assets under [ASC 360]. Consider a fact pattern in which a disposal group held for sale was established that consisted of long-lived assets in the form of property & equipment, as well as other assets such as trade receivables, and inventory. An estimate of the group's fair value, less its costs to sell, was lower than the group's carrying value. Further, the difference between the disposal group's fair value and its carrying value exceeded the existing net book value of long-lived assets. This might lead

you to a question: "Should you recognize a liability for the loss in excess of the carrying amount of the long-lived assets, and, if so, what does it represent?"

I can think of two views for this particular fact pattern. One approach is to record the loss in excess of the carrying amount of the long-lived assets as a reduction to the carrying value of the entire group, effectively reducing trade receivables and inventory. A second approach is to limit the impairment to the carrying value of the long-lived assets in the disposal group.

The first view interprets [ASC 360-10-35-43] to redefine the unit of account as the disposal group and to record it at the lower of its carrying amount or fair value less cost to sell. In effect, individual assets lose their identity, even though the recoverability of AR and inventory are addressed by other GAAP.

The second view looks at [ASC 360-10-35-40], which indicates a "loss ... shall adjust only the carrying amount of a long-lived asset, whether classified as held for sale individually or as part of a disposal group." This approach would limit the loss to the carrying value of the long-lived assets. There seems to be an additional level of simplicity in the second view in that it does not result in the recognition of what, in effect, is a liability created by an asset impairment model. In addition, it appears more consistent with the change [to the current guidance from the] prior guidance which stated that "if a loss is expected from [a] proposed sale, the estimated loss should be provided for at the measurement date." We note other applicable GAAP ... provide[s] guidance for recording liabilities. Finally, the simplicity of this view is that it also interprets [ASC 360's] scope to address the impairment or disposal of long-lived assets, and that it isn't intended to address the recognition of liabilities.

After considering these two views, we ultimately concluded that we would not object to either interpretation of the literature. If companies expect to incur a loss on sale in excess of the impairment associated with long-lived assets, it may be an indicator that other assets such as AR and inventory are impaired. In any event, we believe that registrants who use the first view should clearly disclose where such amounts are reflected in the financial statements and whether additional losses are expected in the future. [Footnotes omitted]

3.3.1 Unit of Account: Disposal Group



FASB REFERENCES

ASC 360-10-20: Disposal Group

If a group of assets will be disposed of together, the unit of account is a disposal group.

Disposal Group

"A disposal group for a long-lived asset or assets to be disposed of by sale or otherwise represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction. A disposal group may include a discontinued operation along with other assets and liabilities that are not part of the discontinued operation."

3.3.1.1 Goodwill in a Disposal Group



FASB REFERENCES

ASC 350-20-40-1 through 40-9

When calculating the net assets of a business to be disposed, the parent must determine how much goodwill to allocate to the disposal group. That allocation depends on whether all, or only a portion, of a reporting unit (see Section 4.2.1) will be deconsolidated:

- ▶ If a reporting unit is to be disposed of in its entirety, that reporting unit's goodwill is included in the carrying amount of the disposal group in determining the gain or loss.
- ▶ If only a portion of a reporting unit that meets the definition of a business or nonprofit activity is disposed of, ASC 350 requires that goodwill be allocated to the disposal group before determining the gain or loss. Therefore, an entity may need to include goodwill in a disposal group even if goodwill was not previously assigned to the asset group while it was classified as held and used (see Section 3.2.1.1).
 - Goodwill is generally allocated to a disposal group 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.
 - However, if an acquired business or nonprofit activity to be disposed of was never integrated into the reporting entity, the entire carrying amount of that acquired goodwill would be included in the disposal group. For example, this might happen when management operates the acquired business or nonprofit activity as a standalone entity or plans to dispose of the business or nonprofit activity shortly after acquisition, but such fact patterns are expected to be rare.
 - When only a portion of a reporting unit is disposed of, the goodwill that remains in the reporting unit must be tested for impairment under ASC 350 (see Chapter 4).
- ▶ If a private company or NFP entity has elected the accounting alternative for amortizing goodwill, it is not required to allocate goodwill on a relative fair value basis. Instead, it must use a reasonable and rational approach (see Section 5.3.1.6).

No goodwill should be assigned to a disposal group and included in the gain or loss recognized upon deconsolidation if the portion of a reporting unit that is being disposed of does not meet the definition of a business or nonprofit activity (see Chapter 3 of BDO's Blueprint, [Business Combinations Under ASC 805](#), for guidance on the definition of a business).

3.3.1.2 Cumulative Translation Adjustments in the Carrying Amount of a Disposal Group



FASB REFERENCES

ASC 830-30-40-1 and ASC 830-30-45-13 through 45-15

ASC 830-10-20: Foreign Entity

If a disposal group includes an investment in a foreign entity (as defined by U.S. GAAP), CTA must be included in the investment's carrying amount when evaluating the disposal group for potential impairment under the held-for-sale model. However, the CTA must remain classified in equity until the disposal group is sold or otherwise disposed of.

Foreign Entity

An operation (for example, subsidiary, division, branch, joint venture, and so forth) whose financial statements are both:

- a. Prepared in a currency other than the reporting currency of the reporting entity*
- b. Combined or consolidated with or accounted for on the equity basis in the financial statements of the reporting entity.*

BDO INSIGHT 3-11: OTHER ITEMS IN ACCUMULATED OTHER COMPREHENSIVE INCOME

There is no guidance that addresses whether AOCI items other than CTA should be included in the carrying amount of a disposal group. We believe it is appropriate to analogize to the guidance in ASC 830-30-45-13 for all items in AOCI.

3.3.1.3 Deferred Taxes in a Disposal Group

Because a disposal group includes “*assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction,*” deferred tax assets and liabilities that will transfer to a buyer must be included in a disposal group. Therefore:

- ▶ If the expected disposal will be **nontaxable** and result in the transfer of the existing tax bases of the individual assets and liabilities, the deferred tax assets and liabilities are **included** in the disposal group.
- ▶ If the expected disposal will be **taxable** and will not result in the transfer of the existing tax bases of the individual assets and liabilities, deferred tax assets and liabilities are **excluded** from the disposal group.

3.3.1.4 Debt in a Disposal Group

Because a disposal group only includes assets and liabilities that will be transferred to a buyer, debt that will be repaid in connection with the sale is excluded from the disposal group. Only debt that will be transferred to a buyer is included in a disposal group.

BDO INSIGHT 3-12: NEGATIVE CARRYING AMOUNT FOR A DISPOSAL GROUP

If a disposal group includes liabilities that exceed the carrying amounts of the assets in the group, the disposal group would have a negative carrying amount. Although ASC 360 does not explicitly prohibit a disposal group from having a negative carrying amount, in such cases an entity should evaluate whether the disposal group appropriately reflects the economics of the disposal transaction and whether the liabilities included in the disposal group will be transferred to the buyer. In practice, disposal groups with negative carrying amounts are uncommon, and such conclusions should be supported by robust documentation, including evidence that the identified liabilities are directly associated with the assets being disposed of and will transfer as part of the transaction.

3.3.2 Held-for-Sale Criteria**FASB REFERENCES**

ASC 360-10-45-9 through 45-10, ASC 970-10-15-3, ASC 970-260-15-1, and ASC 970-360-35-3

An asset or disposal group is classified as held for sale in the period when all the following criteria are met:

CRITERIA FOR CLASSIFYING ASSETS AS HELD FOR SALE	REFERENCE
Criterion 1: Management, having the authority to approve the action, commits to a plan to sell the asset or disposal group.	Section 3.3.2.1
Criterion 2: The asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups.	Section 3.3.2.2
Criterion 3: An active program to locate a buyer and other actions required to complete the plan to sell the asset or disposal group have been initiated.	Section 3.3.2.3
Criterion 4: The sale of the asset or disposal group is probable, and transfer of the asset or disposal group is expected to qualify for recognition as a completed sale, within one year (except as discussed in Section 3.3.2.4).	Section 3.3.2.4
Criterion 5: The asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value.	Section 3.3.2.5
Criterion 6: Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.	Section 3.3.2.6

If these criteria are no longer met, the asset or disposal group must be reclassified as held and used (see Section 3.3.4).



HELD FOR SALE CRITERIA DOES NOT APPLY TO REAL ESTATE ENTITIES IN THE SCOPE OF ASC 970

A real estate entity¹⁹ in the scope of ASC 970, *Real Estate – General* does not apply the held-for-sale criteria to real estate projects or portions of real estate projects that are substantially complete and that will be sold. In accordance with ASC 970-360-35-3, such projects are classified as held for sale regardless of whether the held-for-sale criteria in ASC 360 are met. If a real estate project held by an in-scope real estate entity is under development but is not substantially complete, it is classified under the held-and-used model for the purposes of impairment testing (see Section 3.2.3.1.1.1).

Entities that are outside the scope of ASC 970 must evaluate whether or not their real estate is held for sale using the ASC 360 criteria.



MANAGEMENT INTENT VERSUS ABILITY TO DISPOSE OF LONG-LIVED ASSETS

In evaluating whether to classify a long-lived asset or disposal group as held and used or held for sale, it is important to distinguish between **management's intent to sell** and **the entity's ability to complete a sale that qualifies for derecognition under U.S. GAAP**. Management's intent, even when supported by internal plans or public statements, is not sufficient on its own to justify held-for-sale classification.

¹⁹ An entity with productive activities relating to real property, excluding property used primarily in that entity's non-real estate operations

ASC 360 requires that an entity be able to demonstrate that a sale is probable, that the asset or disposal group is available for immediate sale in its present condition, and that the transaction is expected to qualify for recognition as a completed sale within one year (subject to limited exceptions — see Section 3.3.2.4.2). As a result, if legal, operational, regulatory, or other constraints prevent the entity from transferring control of the asset in a manner that would qualify for derecognition in accordance with U.S. GAAP, an asset (or disposal group) may continue to be accounted for as held and used even when management has committed to a plan to sell it

When evaluating classification, an entity assesses not only whether it intends to sell an asset, but also whether it has the present ability to transfer the asset without retaining continuing involvement or other rights that would preclude derecognition. This assessment often requires consideration of other areas of U.S. GAAP, including consolidation, revenue recognition, and leases.

3.3.2.1 Criterion 1: Management has Committed to a Plan to Sell the Asset



FASB REFERENCES

ASC 360-10-45-9(a)

To classify an asset as held for sale, management must have committed to a plan to sell the asset or disposal group. A request from the board of directors or a member of management to begin exploring options to sell does not constitute a plan. Generally, such plan must be documented and must provide sufficient details to demonstrate that management has a plan to sell the assets and is committed to doing so. If the plan must be approved by the board of directors or shareholders, all such approvals must be obtained before this criterion is met, unless such approval is perfunctory (for example, if the members of management who approved the plan also control the board and hold the majority of shareholder votes).

If an entity has filed for bankruptcy, management might not have the requisite authority to approve a plan of sale. Therefore, this criterion would generally not be met if the bankruptcy court, or similar body, has not approved the plan.

Obtaining other third-party approvals (such as regulatory approvals) would generally not be required to satisfy this criterion. However, third-party approvals might be required to satisfy Criterion 4 (see Section 3.3.2.4).

3.3.2.2 Criterion 2: Disposal Group is Available for Sale in its Present Condition



FASB REFERENCES

ASC 360-10-45-9(b), ASC 360-10-55-37 through 55-42

To classify an asset as held for sale, the asset or disposal group must be available for immediate sale in its present condition, subject only to usual and customary terms. Therefore, this condition is not met if an entity must make capital improvements or repairs to prepare the asset or disposal group for sale.

An entity is not precluded from continuing to use the asset or disposal group while it is held for sale, but it must have the intent and ability to sell the asset or disposal group in its current condition. If a potential sale is conditioned upon the seller being able to use the asset or disposal group for some period of time before the sale will become effective (such as, after completing a project that requires the use of the asset or disposal group), the asset would not be available for sale in its present condition.

Examples 3-12 through 3-16 illustrate scenarios in which an asset or disposal group is (or is not) available for sale in its present condition.

EXAMPLE 3-12 (ADAPTED FROM ASC 360-10-55-38): BUILDING AVAILABLE IN ITS PRESENT CONDITION**FACTS**

- ▶ An entity commits to a plan to sell its headquarters building and has initiated actions to locate a buyer.
- ▶ The entity intends to transfer the building to a buyer after it vacates the building.
- ▶ The time necessary to vacate the building is usual and customary for sales of such assets.

CONCLUSION AND ANALYSIS

The headquarters building is available for immediate sale in its present condition, at the plan commitment date (Criterion 2). Before the asset can be classified as held for sale, the entity needs to determine if the other criteria are met.

EXAMPLE 3-13 (ADAPTED FROM ASC 360-10-55-38): BUILDING NOT AVAILABLE IN ITS PRESENT CONDITION**FACTS**

- ▶ An entity commits to a plan to sell its headquarters building and has initiated actions to locate a buyer.
- ▶ The entity will continue to use the building until construction of a new headquarters building is completed.
- ▶ The entity does not intend to transfer the existing building to a buyer until after the construction of the new building is completed (and it vacates the existing building).

CONCLUSION AND ANALYSIS

The seller's planned delay in transferring the existing headquarters building to the buyer demonstrates that the building is not available for immediate sale, even if a firm purchase commitment for the future transfer of the existing building is obtained. Therefore, Criterion 2 of the held-for-sale criteria is not met, and the headquarters building is not classified as held for sale.

EXAMPLE 3-14 (ADAPTED FROM ASC 360-10-55-40): FACILITY AVAILABLE IN ITS PRESENT CONDITION**FACTS**

- ▶ An entity commits to a plan to sell a manufacturing facility and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted customer orders.
- ▶ The entity intends to sell the manufacturing facility with its operations.
- ▶ Any uncompleted customer orders at the sale date would transfer to the buyer.

CONCLUSION AND ANALYSIS

The transfer of uncompleted customer orders at the sale date will not affect the timing of the transfer of the facility. Therefore, the manufacturing facility is available for immediate sale in its present condition at the plan commitment date (Criterion 2). Before the asset can be classified as held for sale, the entity needs to determine if the other criteria are met.

EXAMPLE 3-15 (ADAPTED FROM ASC 360-10-55-40): FACILITY NOT AVAILABLE IN ITS PRESENT CONDITION**FACTS**

- ▶ An entity commits to a plan to sell a manufacturing facility and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted customer orders.
- ▶ The entity intends to sell the manufacturing facility, but not until it ceases all facility operations and eliminates the backlog of uncompleted customer orders.

CONCLUSION AND ANALYSIS

The seller's planned delay in transferring the manufacturing facility to the buyer demonstrates that the facility is not available for immediate sale, even if a firm purchase commitment for the future transfer of the existing building is obtained. Therefore, Criterion 2 of the held-for-sale criteria is not met, and the manufacturing facility is not classified as held for sale.

EXAMPLE 3-16 (ADAPTED FROM ASC 360-10-55-42): REAL ESTATE NOT AVAILABLE IN ITS PRESENT CONDITION**FACTS**

- ▶ An entity acquires through foreclosure a real estate property that it intends to sell.
- ▶ The entity is not a real estate entity in the scope of ASC 970.
- ▶ The entity does not intend to transfer the property to a buyer until after it completes renovations to increase its sales value.

CONCLUSION AND ANALYSIS

The seller's planned delay in transferring the real estate property to the buyer demonstrates that the property is not available for immediate sale. Therefore, Criterion 2 of the held-for-sale criteria is not met, and the real estate property is not classified as held for sale.

3.3.2.3 Criterion 3: Actions to Complete the Plan are Underway**FASB REFERENCES**

ASC 360-10-45-9(c)

To classify an asset as held for sale, the entity must have initiated actions to complete the plan. There is no requirement for an entity to use an investment banker or a broker to assist with a sale, but if an entity has contracted with a third-party to facilitate a sale, that may provide evidence that actions to complete the plan are underway. Alternatively, this criterion may be met if employees have begun contacting potential buyers or have taken other substantive actions towards selling the asset or disposal group.

3.3.2.4 Criterion 4: Sale is Probable and Expected to be Completed Within One Year



FASB REFERENCES

ASC 360-10-45-9(d), ASC 360-10-45-11, and ASC 360-10-55-43 through 55-49

To classify an asset as held for sale, the sale of the asset (disposal group) must be probable, and transfer of the asset (disposal group) must be expected to qualify for recognition as a completed sale, within one year. This criterion has two important judgments:

- ▶ Determining whether the sale of the asset is probable (see Section 3.3.2.4.1)
- ▶ Determining whether the sale will be completed within one year (see Section 3.3.2.4.2)

3.3.2.4.1 Determining Whether the Sale is Probable

BDO INSIGHT 3-13: TO QUALIFY AS A COMPLETED SALE, DERECOGNITION CRITERIA MUST BE MET

An entity's expectation that a legal sale will occur within one year is insufficient to satisfy Criterion 4. For the sale of an asset to "qualify for recognition as a completed sale," we believe that it must meet the applicable derecognition criteria under other U.S. GAAP. For example, the entity might need to consider the following guidance:

- ▶ ASC 810, *Consolidation* (see BDO's Blueprint, [Control and Consolidation Under ASC 810](#))
 - For derecognition of a business or a nonprofit activity
 - For derecognition of a subsidiary when other U.S. GAAP does not apply
- ▶ ASC 610-20, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets* (see Appendix A of BDO's Blueprint, [Revenue Recognition Under ASC 606](#))
 - For derecognition of long-lived assets that do not meet the definition of a business
- ▶ ASC 842, *Leases* (see Section 7.2 of BDO's Blueprint, [Accounting for Leases Under ASC 842](#))
 - For derecognition of sale-leaseback transactions

Determining whether it is probable that the derecognition criteria will be met within one year requires professional judgment based on the facts and circumstances. For example, if the entity expects to have a repurchase option or continued decision-making over the sold assets or the transaction is subject to an extended regulatory approval process, it might not qualify for recognition as a completed sale. Determining whether this criterion is probable of being met requires professional judgment based on the facts and circumstances.

Examples 3-17 through 3-18 illustrate assessments of whether a sale is probable within one year.

EXAMPLE 3-17 (ADAPTED FROM ASC 360-10-55-43): FORM OF FUTURE TRANSACTION IS UNKNOWN

FACTS

- ▶ An entity that is a commercial leasing and finance company is holding equipment that has recently come off lease.
- ▶ The form of a future transaction (sale or lease) has not yet been determined.

CONCLUSION AND ANALYSIS

Because the entity has not yet determined whether it will sell or lease the property, it cannot conclude that a sale is probable within one year, so Criterion 4 would not be met. Therefore, the equipment is not classified as held for sale.

EXAMPLE 3-18 (ADAPTED FROM ASC 360-10-55-43): FAILED SALE-LEASEBACK TRANSACTION IS EXPECTED

FACTS

- ▶ An entity commits to a plan to sell an asset that is in use, then lease back that asset.
- ▶ The transfer of the asset will not be accounted for as a sale and leaseback transaction (because the buyer-lessor will not obtain control of the asset based on the guidance in ASC 842-40-25-1 through 25-3).²⁰

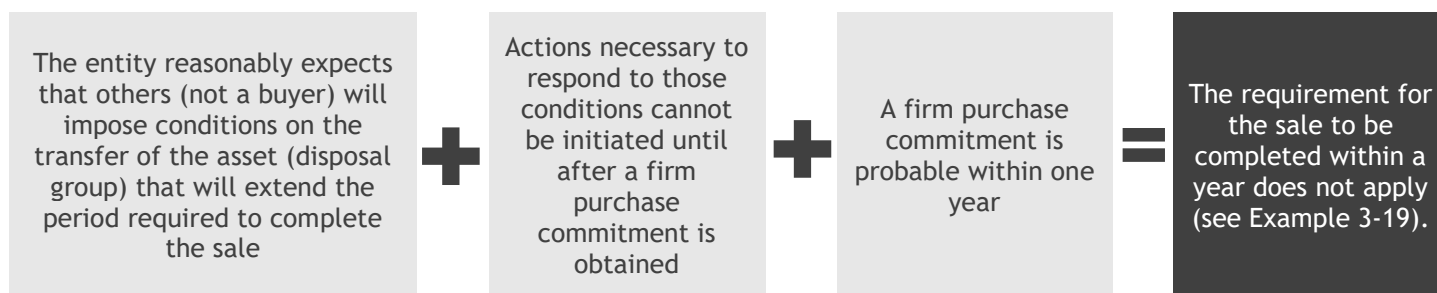
CONCLUSION AND ANALYSIS

Because the transaction will fail sale-leaseback criteria, the asset will not be derecognized. Accordingly, the entity cannot conclude that a sale is probable within one year, so Criterion 4 would not be met. The asset continues to be classified as held and used.

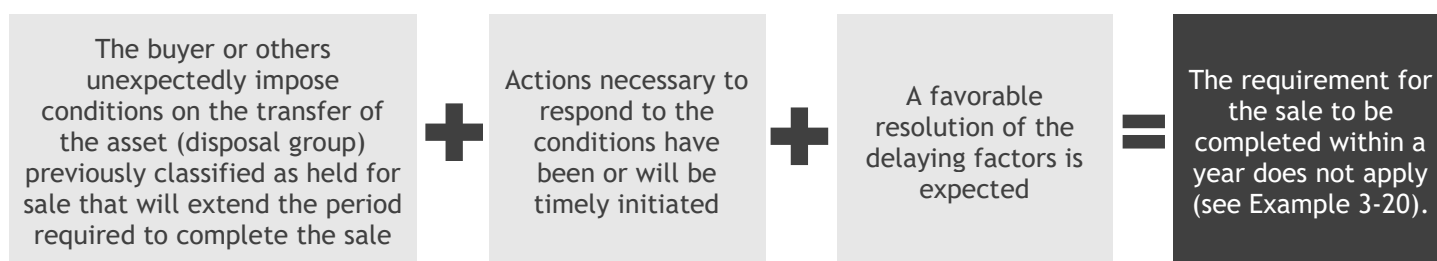
3.3.2.4.2 Determining Whether the Sale Will Be Completed Within One Year

To meet Criterion 4, the sale must be completed within a year. However, ASC 360 offers three exceptions to the one-year requirement (shown below).

- ▶ **Exception 1:** If, at the plan commitment date ...

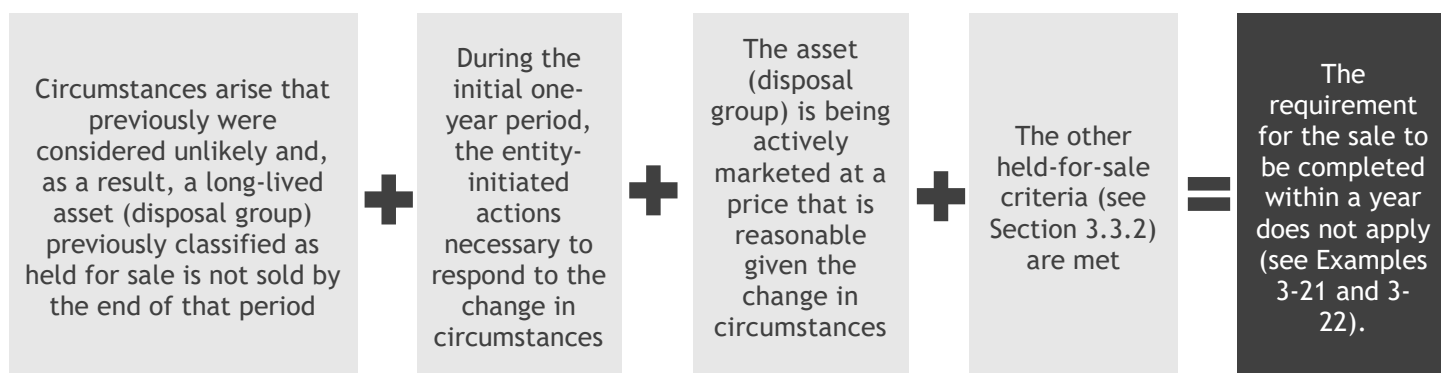


- ▶ **Exception 2:** If an entity has obtained a firm purchase commitment, and ...



- ▶ **Exception 3:** If, during the initial one-year period ...

²⁰ See Section 7.2 of BDO's Blueprint, [Accounting for Leases Under ASC 842](#), for guidance on evaluating sale-leaseback transactions.



Examples 3-19 through 3-22 illustrate assessments of whether a sale is probable within one year or meets an exception to the one-year requirement.

EXAMPLE 3-19 (ADAPTED FROM ASC 360-10-55-45): REGULATORY APPROVAL REQUIRED

FACTS

- ▶ An entity in the utility industry commits to a plan to sell a disposal group that represents a significant portion of its regulated operations. The entity expects that this plan will result in the derecognition of the disposal group under the applicable U.S. GAAP when completed.
- ▶ The sale will require regulatory approval, which could extend the period required to complete the sale beyond one year.
- ▶ Actions necessary to obtain that approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is probable within one year.

CONCLUSION

The disposal group meets Criterion 4 of the held-for-sale criteria.

ANALYSIS

Although the sale will not be completed within a year, the transaction is exempted from the one-year requirement for the following reasons:

- ▶ The entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the disposal group that will extend the period required to complete the sale.
- ▶ Actions necessary to respond to those conditions cannot be initiated until after a firm purchase commitment is obtained.
- ▶ A firm purchase commitment is probable within one year.

Because a sale is probable and the transaction is exempted from the one-year requirement, the disposal group meets Criterion 4 of the held-for-sale criteria. Before the asset can be classified as held for sale, the entity needs to determine if the other criteria are met.

EXAMPLE 3-20 (ADAPTED FROM ASC 360-10-55-47): ENVIRONMENTAL DAMAGE IDENTIFIED DURING INSPECTION

FACTS

- ▶ An entity commits to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. The entity expects that this plan will result in the derecognition of the manufacturing facility under the applicable U.S. GAAP when completed.
- ▶ After a firm purchase commitment is obtained, the buyer's property inspection identifies environmental damage not previously known to exist.

- ▶ The entity is required by the buyer to remediate the damage, which will extend the period required to complete the sale beyond one year.
- ▶ However, the entity has initiated actions to remediate the damage, and satisfactory remediation of the damage is probable.

CONCLUSION

The disposal group meets Criterion 4 of the held-for-sale criteria.

ANALYSIS

Although the sale will not be completed within a year, the transaction is exempted from the one-year requirement for the following reasons:

- ▶ The entity has a firm purchase commitment
- ▶ A buyer or others unexpectedly imposed conditions on the transfer of a long-lived asset or disposal group previously classified as held for sale that will extend the period required to complete the sale.
- ▶ Actions necessary to respond to the conditions have been or will be timely initiated.
- ▶ A favorable resolution of the delaying factors is expected.

Because a sale continues to be probable and the transaction is exempted from the one-year requirement, the disposal group meets Criterion 4 of the held-for-sale criteria. As such, the asset continues to be classified as held for sale (assuming the other held-for-sale criteria continue to be met).

EXAMPLE 3-21 (ADAPTED FROM ASC 360-10-55-49): DETERIORATION OF MARKET CONDITIONS

FACTS

- ▶ An entity commits to a plan to sell a long-lived asset and classifies the asset as held for sale at that date. The entity expects that this plan will result in the derecognition of the long-lived under the applicable U.S. GAAP when completed.
- ▶ During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period.
- ▶ During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, the entity reduced the price.
- ▶ The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the other held-for-sale criteria in Section 3.3.2 are met.

CONCLUSION

The asset continues to be classified as held for sale.

ANALYSIS

Although the sale was not completed within a year, the transaction is exempted from the one-year requirement for the following reasons:

- ▶ During the initial one-year period, circumstances arose that previously were considered unlikely and, as a result, the long-lived asset previously classified as held for sale was not sold by the end of that period.
- ▶ During the initial one-year period the entity initiated actions necessary to respond to the change in circumstances.
- ▶ The asset or disposal group is being actively marketed at a price that is reasonable given the change in circumstances.
- ▶ The held-for-sale criteria (see Section 3.3.2) are met.

Because a sale continues to be probable and the transaction is exempted from the one-year requirement, the disposal group meets Criterion 4 of the held-for-sale criteria. Because the other held-for-sale criteria are also met, the disposal group continues to be classified as held for sale.

EXAMPLE 3-22 (ADAPTED FROM ASC 360-10-55-49): DETERIORATION OF MARKET CONDITIONS

FACTS

- ▶ Assume the same facts as Example 3-21, except that:
 - During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period.
 - The entity believes that the market conditions will improve and has not further reduced the price of the asset.
 - The asset continues to be held for sale, but at a price above its current fair value.

CONCLUSION

The asset is reclassified as held and used.

ANALYSIS

The conditions for an exception to the one-year requirement are not met.

- ▶ The absence of a price reduction demonstrates that the asset is not available for immediate sale (see Section 3.3.2.2).
- ▶ The asset is not being marketed at a price that is reasonable in relation to its current fair value (see Section 3.3.2.5).

3.3.2.5 Criterion 5: Actively Marketed at a Reasonable Price



FASB REFERENCES

ASC 360-10-45-9(e)

To classify an asset as held for sale, the entity must actively market the asset or disposal group for sale at a price that is reasonable in relation to its current fair value. The price at which a long-lived asset or disposal group is being marketed is indicative of whether the entity currently intends to sell the asset or disposal group. A price significantly above fair value indicates that the asset or disposal group is not available for immediate sale.

3.3.2.6 Criterion 6: Unlikely that Significant Changes to the Plan Will be Made



FASB REFERENCES

ASC 360-10-45-9(f)

To classify an asset as held for sale, the entity must not expect to withdraw the plan or make significant changes to the plan to sell the asset or disposal group.

BDO INSIGHT 3-14: A FORMALLY DOCUMENTED PLAN INCREASES THE LIKELIHOOD THAT SIGNIFICANT CHANGES WILL NOT BE MADE

Having a formally documented plan that has been approved at the appropriate levels increases the likelihood that the entity will not significantly change the plan. When evaluating this criterion, the entity must consider the facts and circumstances related to the current plan. It must also consider whether there is a history of changing or withdrawing plans (to sell other assets or disposal groups).

3.3.3 Held-for-Sale Criteria Met After the Balance Sheet Date



FASB REFERENCES

ASC 360-10-45-13

If the held-for-sale criteria are not met at the balance sheet date, the asset or disposal group must be presented as held and used, even if the held-for-sale criteria are met before the financial statements are issued or available to be issued. That is, meeting the held-for-sale criteria after the balance sheet date is an unrecognized subsequent event. However, disclosure of the subsequent event may be required, and additional disclosures are required if the held-for-sale asset group meets the requirements to also be presented as discontinued operations.

Additionally, if the asset (asset group) is tested for recoverability at the balance sheet date, it must be tested for impairment under the held-and-used model. The estimates of future cash flows used in such impairment test must consider the likelihood of possible outcomes that existed as of the balance sheet date (see Section 3.2.3.1.2) including the potential future sale of the asset. Any resulting impairment would be recognized as of the balance sheet date.

BDO INSIGHT 3-15: SUBSEQUENTLY MEETING HELD FOR SALE CRITERIA AND EXPECTING TO SELL AT A LOSS

If an entity meets the held-for-sale criteria shortly after the balance sheet date and expects to sell the asset or disposal group at a loss, that might indicate that the asset or disposal group should have been tested for impairment at the balance sheet date.

The SEC Staff frequently questions registrants on the timing of recognized impairments of long-lived assets, particularly when impairments are recorded shortly before or contemporaneously with a disposition, restructuring, or other strategic transaction. In such cases, the staff often asks registrants to explain why the impairment was recognized in the current period and not earlier, and what specific events or changes in circumstances triggered the impairment assessment.

Registrants should design processes and controls to identify impairment indicators on a timely basis and should contemporaneously document management's evaluation of relevant events and circumstances. The absence of a single discrete triggering event does not preclude the requirement to perform an impairment test, as a combination of adverse factors that develop over time may indicate that the carrying amount of an asset group might not be recoverable.

Determining whether events and circumstances indicate a potential impairment requires the use of professional judgment based on the facts and circumstances.

3.3.4 Changes to Plan of Sale



FASB REFERENCES

ASC 360-10-35-44 through 35-45, ASC 360-10-45-6 through 45-8, ASC 360-10-45-10, and ASC 360-10-55-42

If at any time the held-for-sale criteria (see Section 3.3.2) are no longer met, a long-lived asset or disposal group classified as held for sale must be reclassified as held and used. A **long-lived asset** that is reclassified as held and used is measured **individually** at the lower of fair value or its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation or amortization that would have been recognized had the asset or disposal group been continuously classified as held and used. The carrying amounts of assets and liabilities that are outside the scope of ASC 360 but that were included in the disposal group are not adjusted because of changes to the plan of sale, because their carrying amounts were not previously adjusted upon measuring the disposal group at fair value less costs to sell (as discussed in Section 3.3).

If an entity removes an individual asset or liability from a disposal group that was previously classified as held for sale, the remaining assets and liabilities in the disposal group to be sold continue to be measured as a disposal group only if the held-for-sale criteria (see Section 3.3.2) are still met. That is, the remaining disposal group continues to be measured as held for sale as discussed in Section 3.3. Otherwise, the remaining **long-lived assets** in the disposal group are measured **individually** at the lower of their carrying amounts or fair values less cost to sell at that date.

Any adjustments to the carrying amounts of long-lived assets that are reclassified as held and used (including adjustments to reflect depreciation or amortization that would have been recognized had the asset or disposal group been continuously classified as held and used) must be included in income from continuing operations before income taxes (in the same income statement caption used to report a disposal) (see Section 6.3.2).

Example 3-23 illustrates a change in circumstances that requires an asset to be reclassified as held and used.

EXAMPLE 3-23 (ADAPTED FROM ASC 360-10-55-42): REAL ESTATE NO LONGER AVAILABLE IN ITS PRESENT CONDITION

FACTS

- ▶ An entity acquires through foreclosure a real estate property that it intends to sell.
- ▶ The entity is not a real estate entity in the scope of ASC 970.
- ▶ The property is initially classified as held for sale but before a firm purchase commitment is obtained, the entity becomes aware of environmental damage requiring remediation.
- ▶ The entity still intends to sell the property. However, the entity does not have the ability to transfer the property to a buyer until after the remediation is completed.

CONCLUSION AND ANALYSIS

The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in ASC 360-10-45-9(b) would not continue to be met. The property would be reclassified as held and used in accordance with ASC 360-10-45-7.

3.3.5 Newly Acquired Assets to be Sold



FASB REFERENCES

ASC 360-10-45-12 and ASC 805-20-30-22

Sometimes, in a business combination or an asset acquisition, an entity acquires long-lived assets that it intends to dispose of shortly after the acquisition date. Such assets are subject to the same held-for-sale criteria as other assets, but an acquirer is afforded additional time to meet those requirements.

For long-lived assets to be classified as held for sale on the acquisition date, **both** of the following conditions must be met:



The sale of the asset (or disposal group) is probable of being completed within one year of the acquisition date (except as permitted by ASC 360-10-45-11 – see Section 3.3.2.4.2)



Any other held-for-sale criteria that are not met as of the acquisition date are probable of being met within a short period after the acquisition (generally three months).

If assets acquired in a business combination or an asset acquisition²¹ meet the two conditions described above, those assets are recognized in the same manner as other held-for-sale assets (at the lower of their allocated cost or fair value less costs to sell (see Section 3.3)).

3.4 LONG-LIVED ASSETS TO BE ABANDONED



FASB REFERENCES

ASC 360-10-35-46 through 35-49 and ASC 360-10-S99-2

A long-lived asset to be abandoned is not considered to be disposed of until it ceases to be used. Assets to be abandoned are subject to impairment testing under the assets held-and-used model (see Section 3.2).

An entity that intends to abandon an asset cannot classify it as held for sale. However, if an entity commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, it must revise its depreciation or amortization estimate to reflect the use of the asset over its shortened useful life so that the carrying amount of the asset will equal its salvage value when the asset ceases to be used. It would typically **not** be appropriate to write-off the entire carrying amount of a long-lived asset while it is being used. The continued use of an asset demonstrates the presence of service potential, and only in unusual situations would the asset have no fair value while it is still in use. A temporarily idled asset is not considered abandoned.

The SEC staff provided the following guidance on revising depreciation estimates for an asset to be abandoned.

²¹ In the initial consolidation of a variable interest entity that is not a business, the primary beneficiary applies the acquisition method in ASC 805 (see Section C.1.1 of BDO's Blueprint, [Business Combinations Under ASC 805](#), and Chapter 7 of BDO's Blueprint, [Control and Consolidation Under ASC 810](#)) and accounts for acquired held-for-sale assets in the same manner as a business combination (at fair value less costs to sell).



SEC STAFF GUIDANCE

[Staff Accounting Bulletin Topic 5.CC](#) (reprinted in ASC 360-10-S99-2)

CC. Impairments

Standards for recognizing and measuring impairment of the carrying amount of long-lived assets including certain identifiable intangibles to be held and used in operations are found in FASB ASC Topic 360, Property, Plant, and Equipment. Standards for recognizing and measuring impairment of the carrying amount of goodwill and identifiable intangible assets that are not currently being amortized are found in FASB ASC Topic 350, Intangibles – Goodwill and Other.

Facts: Company X has mainframe computers that are to be abandoned in six to nine months as replacement computers are put in place. The mainframe computers were placed in service in January 20X0 and were being depreciated on a straight-line basis over seven years. No salvage value had been projected at the end of seven years and the original cost of the computers was \$8,400. The board of directors, with the appropriate authority, approved the abandonment of the computers in March 20X3 when the computers had a remaining carrying value of \$4,600. No proceeds are expected upon abandonment. Abandonment cannot occur prior to the receipt and installation of replacement computers, which is expected prior to the end of 20X3. Management had begun reevaluating its mainframe computer capabilities in January 20X2 and had included in its 20X3 capital expenditures budget an estimated amount for new mainframe computers. The 20X3 capital expenditures budget had been prepared by management in August 20X2, had been discussed with the company's board of directors in September 20X2 and was formally approved by the board of directors in March 20X3. Management had also begun soliciting bids for new mainframe computers beginning in the fall of 20X2. The mainframe computers, when grouped with assets at the lowest level of identifiable cash flows, were not impaired on a "held and used" basis throughout this time period. Management had not adjusted the original estimated useful life of the computers (seven years) since 20X0.

Question 1: Company X proposes to recognize an impairment charge under FASB ASC Topic 360 for the carrying value of the mainframe computers of \$4,600 in March 20X3. Does Company X meet the requirements in FASB ASC Topic 360 to classify the mainframe computer assets as "to be abandoned?"

Interpretive Response: No. FASB ASC paragraph 360-10-35-47 provides that "a long-lived asset to be abandoned is disposed of when it ceases to be used. If an entity commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates shall be revised in accordance with FASB ASC Topic 250, Accounting Changes and Error Corrections, to reflect the use of the asset over its shortened useful life."

Question 2: Would the staff accept an adjustment to write down the carrying value of the computers to reflect a "normalized depreciation" rate for the period from March 20X3 through actual abandonment (e.g., December 20X3)? Normalized depreciation would represent the amount of depreciation otherwise expected to be recognized during that period without adjustment of the asset's useful life, or \$1,000 (\$100/month for ten months) in the example fact pattern.

Interpretive Response: No. The mainframe computers would be viewed as "held and used" at March 20X3 under the fact pattern described. There is no basis under FASB ASC Topic 360 to write down an asset to an amount that would subsequently result in a "normalized depreciation" charge through the disposal date, whether disposal is to be by sale, abandonment, or other means. FASB ASC paragraph 360-10-35-43 requires the asset to be valued at the lower of carrying amount or fair value less cost to sell in order to be classified as "held for sale." For assets that are classified as "held and used" under FASB ASC Topic 360, an

assessment must first be made as to whether the asset (asset group) is impaired. FASB ASC paragraph 360-10-35-17 indicates that an impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). The staff would object to a write down of long-lived assets to a “normalized depreciation” value as representing an acceptable alternative to the approaches required in FASB ASC Topic 360.

The staff also believes that registrants must continually evaluate the appropriateness of useful lives assigned to long-lived assets, including identifiable intangible assets and goodwill. In the above fact pattern, management had contemplated removal of the mainframe computers beginning in January 20X2 and, more formally, in August 20X2 as part of compiling the 20X3 capital expenditures budget. At those times, at a minimum, management should have reevaluated the original useful life assigned to the computers to determine whether a seven year amortization period remained appropriate given the company’s current facts and circumstances, including ongoing technological changes in the market place. This reevaluation process should have continued at the time of the September 20X2 board of directors’ meeting to discuss capital expenditure plans and, further, as the company pursued mainframe computer bids. Given the contemporaneous evidence that management’s best estimate during much of 20X2 was that the current mainframe computers would be removed from service in 20X3, the depreciable life of the computers should have been adjusted prior to 20X3 to reflect this new estimate. The staff does not view the recognition of an impairment charge to be an acceptable substitute for choosing the appropriate initial amortization or depreciation period or subsequently adjusting this period as company or industry conditions change. The staff’s view applies also to selection of, and changes to, estimated residual values. Consequently, the staff may challenge impairment charges for which the timely evaluation of useful life and residual value cannot be demonstrated.

3.5 LONG-LIVED ASSETS THAT HAVE BEEN DISPOSED, ABANDONED, OR DESTROYED



FASB REFERENCES

ASC 350-20-35-47 through 35-49

If an asset has been disposed, abandoned,²² or destroyed, it no longer provides any benefit to the entity. Therefore, it must be derecognized even if the asset group that it belongs to is not impaired.

²² A long-lived asset that has been temporarily idled shall not be accounted for as abandoned.

3.5.1 Involuntary Conversions and Loss Recoveries



FASB REFERENCES

ASC 410-30-35-8 through 35-9, ASC 610-30-05-1, ASC 610-30-25-2 through 25-4, and ASC 610-30-30-1

When the disposal, abandonment, or destruction of an asset is involuntary, an entity might be entitled to receive compensation from an insurer, government body, or other third party. Such an exchange is called an involuntary conversion. An involuntary conversion is defined as the involuntary exchange of a nonmonetary asset (for example, a fixed asset) into a monetary asset (for example, insurance proceeds). Additional examples of involuntary conversions include the destruction or theft of insured assets and the condemnation of property in an eminent domain proceeding.

If the value of the monetary asset received is greater than the carrying amount of the nonmonetary asset, the transaction results in a gain, even if the insurance proceeds are reinvested in replacement nonmonetary assets, such as new equipment. (The acquisition of replacement assets is accounted for separately from the involuntary conversion.) Conversely, if the value of the monetary asset received is less than the carrying amount of the nonmonetary asset, the transaction results in a loss.

In some cases, a nonmonetary asset may be destroyed or damaged in one accounting period, but the amount of monetary assets to be received is not determinable until a subsequent accounting period. In those cases, any gain is recognized in accordance with the gain contingency guidance in ASC 450-30, *Gain Contingencies*, which specifies that the gain can be recognized only when all uncertainties have been resolved (typically, when cash is received), at which point the gain is considered realizable. However, in cases where an insurance recovery is probable, such as when the insurance coverage is objectively determinable and the insurance company does not dispute the claim, the entity applies the loss recovery model in ASC 410-30, *Asset Retirement and Environmental Obligations – Environmental Obligations*. Under this model, a recovery equal to the amount of the loss is recognized when its receipt becomes probable. The amount recognized is limited to the amount of the loss. Any excess amounts expected to be recovered are treated as gain contingencies. (However, if it is uncertain whether the loss is covered by insurance, the entire recovery must be treated as a gain contingency.)

An entity presents a gain or loss from an involuntary conversion in the income statement in accordance with ASC 220-20, *Income Statement – Reporting Comprehensive Income – Unusual or Infrequently Occurring Items*. Generally, a loss and the related insurance recovery may be presented in the same line item, as limited specific classification guidance exists for these items.

EXAMPLE 3-24: INVOLUNTARY CONVERSION WITH REPLACEMENT EQUIPMENT PURCHASE

FACTS

- ▶ Equipment and a building were damaged in a flood.
- ▶ The equipment, which had a carrying amount of \$1,000, was destroyed.
- ▶ The building was partially damaged; the uninhabitable portion had an allocated carrying amount of \$5,000.
- ▶ Insurance will cover \$10,000 to replace the equipment and repair the building. The insurance carrier has confirmed coverage of the claim, and it is not being disputed by the insurance company.

CONCLUSION AND ANALYSIS

- ▶ The entity records a loss of \$6,000 (and reduces the property and equipment) in the period the flood occurred.
- ▶ Because there are no uncertainties about whether the loss is covered by insurance, the entity records an insurance recovery of \$6,000 to reflect the proceeds from insurance to the extent of the asset write-off because there are no uncertainties related to that amount.
- ▶ In the period that the company receives the incremental \$4,000 proceeds from the insurance, it would record a gain on the involuntary conversion of that amount.

- ▶ In the period that the replacement equipment is purchased and repairs are made to the building, the entity would record capital additions of \$10,000.

Chapter 4: ASC 350 Goodwill



4.1 OVERVIEW: ACCOUNTING FOR GOODWILL



FASB REFERENCES

ASC 350-20-20: Goodwill and Reporting Unit; ASC 350-20-25-2 through 25-3, ASC 350-20-35-41, ASC 805-60-30-2, and ASC 852-10-45-20

ASC 350 defines goodwill as “an asset representing the future economic benefits arising from other assets acquired in a business combination ... that are not individually identified and separately recognized.” Goodwill can arise in the following transactions:

- ▶ Business combinations (and NFP acquisitions)
- ▶ Pushdown accounting
- ▶ Fresh-start reporting
- ▶ Joint venture formations
- ▶ Equity-method investments²³

U.S. GAAP provides private companies and NFP entities goodwill accounting alternatives, which are meant to simplify the accounting for goodwill and may provide relief for entities that elect them (see Chapter 5). The remainder of this chapter discusses the accounting for goodwill for entities that do not qualify for (or do not elect) the goodwill accounting alternatives.

Upon initial recognition, goodwill is assigned to one or more reporting units (see Section 4.2.3.2.2.4). A reporting unit is the unit of account for testing goodwill for impairment (see Section 4.2.1). ASC 350 defines a reporting unit as either an operating segment or one level below an operating segment, also known as a component (see Chapter 2 in BDO’s Blueprint, [Segment Reporting Under ASC 280](#), for guidance on identifying operating segments).

²³ Equity-method goodwill is not recognized as a separate asset but is included in the carrying amount of the investment and is not separately tested for impairment (see Section 3.3 of BDO’s Blueprint, [Equity Method Investments Under ASC 323](#)).

Goodwill is not amortized (unless the private company alternative²⁴ is elected). Rather, an entity must test goodwill for impairment annually and in response to triggering events (changes in circumstances that indicate a potential impairment). A goodwill impairment exists when the reporting unit's fair value is less than its carrying amount (see Section 4.2).

Goodwill is not a separately identifiable asset. Therefore, costs incurred to develop, maintain, and restore goodwill must be expensed as incurred.

4.2 IMPAIRMENT TEST: GOODWILL



FASB REFERENCES

ASC 350-20-35-1 through 35-3

Goodwill must be tested for impairment annually and whenever events or circumstances indicate that it is more likely than not that the goodwill is impaired. A goodwill impairment exists when the reporting unit's fair value is less than its carrying amount.



FASB PROJECT: TARGETED IMPROVEMENTS TO GOODWILL IMPAIRMENT TESTING

In July 2026, the FASB added a project to its technical agenda, to consider:

- ▶ Whether goodwill should be tested for impairment at the operating segment level rather than the reporting unit level
- ▶ Whether goodwill should be tested for impairment only upon a triggering event, rather than both annually and when a triggering event occurs

Readers should monitor the [FASB website](#) for developments.

4.2.1 Unit of Account: Reporting Unit



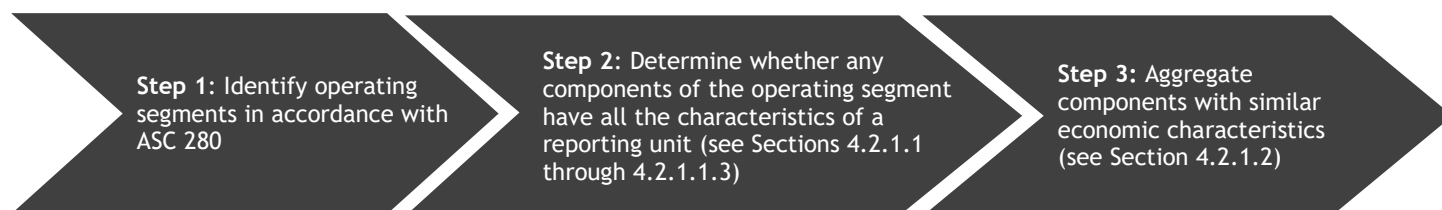
FASB REFERENCES

ASC 350-20-35-33 through 35-38, ASC 350-20-55-1 through 55-2, and ASC 805-60-25-13

Upon initial recognition, goodwill is assigned to one or more reporting units. A reporting unit is the unit of account for testing goodwill for impairment. ASC 350 defines a reporting unit as either an operating segment or one level below an operating segment (also known as a component).

²⁴ See Chapter 5 for a discussion of the private company alternatives for goodwill and intangible assets.

Identifying reporting units is a three-step process:



The first step in identifying reporting units is to identify operating segments in accordance with ASC 280, *Segment Reporting*. Even if an entity is not required to report segment information (because it is not a public entity as defined in ASC 280), it must still apply the guidance in ASC 280 to identify its operating segments for purposes of determining its reporting units.

An operating segment has **all** the following characteristics:

- ▶ It engages in business activities from which it may recognize revenue and incur expenses.
- ▶ Its operating results are regularly reviewed by the chief operating decision-maker to:
 - Make resource allocation decisions **and**
 - Assess its performance.
- ▶ Its discrete financial information is available.

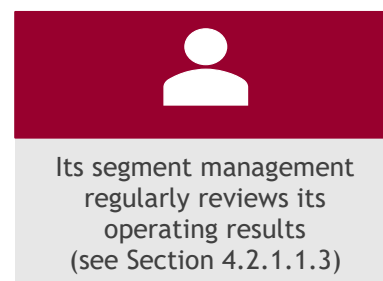
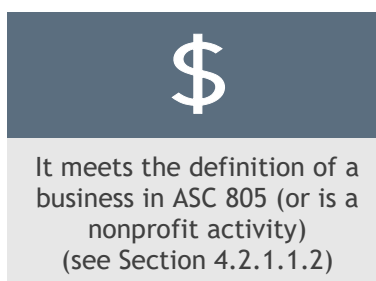
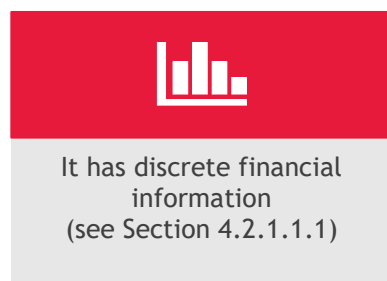
See Chapter 2 in BDO's Blueprint, [Segment Reporting Under ASC 280](#), for more guidance.



AGGREGATION OF OPERATING SEGMENTS MUST BE DISREGARDED FOR IMPAIRMENT TESTING

If specific conditions are met, ASC 280 allows entities to aggregate some operating segments into reportable segments for the purpose of segment reporting. However, ASC 350 specifies that a reporting unit cannot be at a level higher than an operating segment. Therefore, any aggregation of operating segments for segment reporting must be disregarded when identifying reporting units for impairment testing.

The second step in identifying reporting units is to determine whether there are any components within the segments that have the characteristics of a reporting unit. To be a reporting unit, a component must have **all** the following characteristics:



If there are no components within a segment that have all the characteristics of a reporting unit, or if the operating segment is comprised of only a single component, the reporting unit is the operating segment. Otherwise, the entity performs step 3.

The third step in identifying reporting units is to aggregate components that have similar economic characteristics into a single reporting unit (see Section 4.2.1.2). As a result, an operating segment would also be a reporting unit if all its components are economically similar or if the operating segment has a single component.

If an entity changes its reporting structure, it must reassess its reporting units (see Section 4.2.1.3).

BDO INSIGHT 4-1: GOODWILL IMPAIRMENT TESTING IF SOME, BUT NOT ALL, COMPONENTS OF AN OPERATING SEGMENT QUALIFY AS REPORTING UNITS

ASC 350 does not provide guidance for determining reporting units when one or more components of an operating segment qualify as a reporting unit (or reporting units) while the remaining components of the reporting unit do not qualify. However, any component that has goodwill assigned to it must be included in a reporting unit for goodwill impairment testing.

Determining the reporting units for such an operating segment requires the use of professional judgment based on the facts and circumstances.

4.2.1.1 Characteristics of a Reporting Unit

4.2.1.1.1 Component has Discrete Financial Information



FASB REFERENCES

ASC 350-20-35-34 and ASC 350-20-55-4



It has discrete financial information

Characteristic #1: To be a reporting unit, a component must have discrete financial information (see Section 2.3.3 of BDO's Blueprint, [Segment Reporting Under ASC 280](#)). Discrete financial information is not necessarily a complete set of financial statements; rather, it is the information that the segment manager needs to assess the performance of the component. When determining whether information qualifies as discrete financial information, in practice it is often helpful to consider the metrics the segment manager uses to review the operating results. For example, the segment manager might consider only revenue and specific direct expenses to make operating decisions about a component

A component that does not have any assets or liabilities allocated to it for internal reporting purposes could still be considered to have discrete financial information. However, in practice, the lack of assets and liabilities assigned to a component for internal reporting purposes might call into question whether the component meets the definition of a business, or it may indicate that the component is economically similar to (and thus must be aggregated with) another component (see Section 4.2.1.2). In any case, if a component qualifies as a reporting unit, the entity must allocate the assets and liabilities that are used in (or are related to) the reporting unit's operations when performing the impairment test (see Section 4.2.3.2.2), even if there are not assets or liabilities allocated to the component for internal reporting purposes.

4.2.1.1.2 Component is a Business or Nonprofit Activity



FASB REFERENCES

ASC 350-20-35-34, ASC 350-20-55-3, and ASC 350-20-20: Nonprofit Activity



It meets the definition of a business under ASC 805 (or is a nonprofit activity)

Characteristic #2: To be a reporting unit, a component must constitute a business or a nonprofit activity. Determining whether a component is a business is based on the definition of a business in ASC 805 (see Chapter 3 of BDO's Blueprint, [Business Combinations Under ASC 805](#)).

Determining whether a component constitutes a nonprofit activity requires judgment based on the facts and circumstances. A nonprofit activity is *"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)."*

In this chapter, references to "business" generally include nonprofit activities.

BDO INSIGHT 4-2: AN OPERATING SEGMENT IS NOT REQUIRED TO BE A BUSINESS

The requirement to meet the definition of a business under ASC 805 in order to qualify as a reporting unit only applies to components; it does not apply to operating segments. To qualify as an operating segment under ASC 280, a component must engage in business activities, but it does not have to meet the definition of a business. Therefore, it is possible for an operating segment to qualify as a reporting unit, even if it does not meet the definition of a business.

BDO INSIGHT 4-3: GOODWILL IMPAIRMENT TESTING FOR JOINT VENTURES THAT ARE NOT BUSINESSES

As discussed in Appendix D of BDO's Blueprint, [Business Combinations Under ASC 805](#), ASC 805-60 requires a joint venture (as defined in U.S. GAAP) to apply a new basis of accounting at its formation date, in which it recognizes and initially measures its assets and liabilities at fair value (with exceptions consistent with the business combinations guidance). The joint venture recognizes goodwill if the fair value of the joint venture as a whole exceeds the total identifiable assets and liabilities recognized by the joint venture at the formation date, even if the joint venture does not meet the definition of a business. In rare cases, a joint venture that is not a business might recognize a significant amount of goodwill upon formation but not have operating segments or reporting units. If that is the case, the joint venture must test goodwill at the entity level.²⁵

²⁵ ASU 2023-05, *Joint Venture Formations*, BC49

4.2.1.1.3 Component is Reviewed by Segment Management



FASB REFERENCES

ASC 280-10-50-7 through 50-8, ASC 350-20-35-34, and ASC 350-20-55-5



Its segment management regularly reviews its operating results

Characteristic #3: To be a reporting unit, a component's discrete financial information must be regularly reviewed by the segment manager.

The segment manager is either a level below or at the same level as the Chief Operating Decision Maker (CODM). Generally, a segment manager is different than the CODM, but not always. In cases where the segment manager is different from the CODM, the segment manager is typically directly accountable to and maintains regular contact with the CODM to discuss operating activities, financial results, forecasts, and segment plans. Conversely, the CODM could be the segment manager for one or more of the entity's reporting units.



SEC STAFF INSIGHTS

In remarks before the [2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments](#), staff from the Division of Corporation Finance discussed the SEC staff's view on what qualifies as "regularly reviewed." Although that particular discussion focused on segment reporting, we believe that its conclusion also applies in the context of impairment testing.

Since ASC 280 does not define "regularly reviewed" or "regularly provided," the SEC staff clarified that a quarterly frequency is "regular" in this context. However, the SEC staff also cautioned that information reviewed or provided less frequently may constitute a "regular" review or provision of information.

Reaching a conclusion on whether information is regularly reviewed by a segment manager requires professional judgment based on the facts and circumstances.

4.2.1.2 Aggregation of Components



FASB REFERENCES

ASC 280-10-50-11, ASC 350-20-35-35, and ASC 350-20-55-6 through 55-8

If multiple components within the **same** operating segment (i) have the characteristics of a reporting unit and (ii) have similar economic characteristics, those components must be aggregated into a single reporting unit. However, components of **different** operating segments cannot be combined into a single reporting unit, even if they are economically similar. For example, an entity may have organized its operating segments based on geography. If its three geographical operating segments each have two components (A and B) that are dissimilar from each other but are similar to their corresponding components in the other operating segments, the entity cannot combine component A from each operating segment into one reporting unit A, nor combine component B from each operating segment into one reporting unit B.

To determine whether components have similar economic characteristics, the entity must consider the following factors from ASC 280:

- ▶ Whether the components are expected to have similar long-term financial performance
- ▶ The nature of the products and services
- ▶ The nature of the production processes
- ▶ The type of class of customer for their products or services
- ▶ The methods used to distribute products and services
- ▶ The nature of the regulatory environment (if applicable) — for example, banking, insurance, or public utilities

Additionally, ASC 350 provides examples of other factors that could be considered:

- ▶ The manner in which an entity operates its business and the nature of those operations
- ▶ Whether goodwill is recoverable from the separate operations of each component or from two or more components working in concert
- ▶ The extent to which the components share assets and other resources, as might be evidenced by extensive transfer pricing mechanisms
- ▶ Whether the components support and benefit from common research and development projects

If a component extensively shares assets and other resources with other components, it might indicate that the component is not a business (and therefore cannot be a reporting unit), or that it might be economically similar to those other components (and therefore would not be a standalone reporting unit, but would need to be aggregated with those other components).

BDO INSIGHT 4-4: ASSESSING WHETHER COMPONENTS HAVE SIMILAR ECONOMIC CHARACTERISTICS

The requirements for aggregating operating segments into a single reportable segment under ASC 280 are more stringent than the requirements for aggregating components into a reporting unit under ASC 350-20. When determining reportable segments under ASC 280, **all** the criteria in ASC 280-10-50-11 must be met to conclude that the operating segments can be aggregated into a single reportable segment. Additionally, the analysis in ASC 280 places significant emphasis on whether the operating segments have **quantitatively** similar operating metrics, including assessing whether the expected long-term margins are less than 10% different on a relative percentage basis (see Section 3.2.2 of BDO's Blueprint, [Segment Reporting Under ASC 280](#)).

When evaluating reporting units under ASC 350, **not all** the factors in ASC 280-10-50-11 have to be met to qualify for aggregating components into a reporting unit, and the analysis is more **qualitative** than quantitative.

Therefore, we believe that components being considered for aggregation under ASC 350 are permitted larger relative quantitative differences in their operating metrics than operating segments being considered for aggregation under ASC 280, while still being considered economically similar.

Determining whether two components have similar economic characteristics (and, therefore, must be aggregated into a single reporting unit) requires the application of professional judgment based on the facts and circumstances.

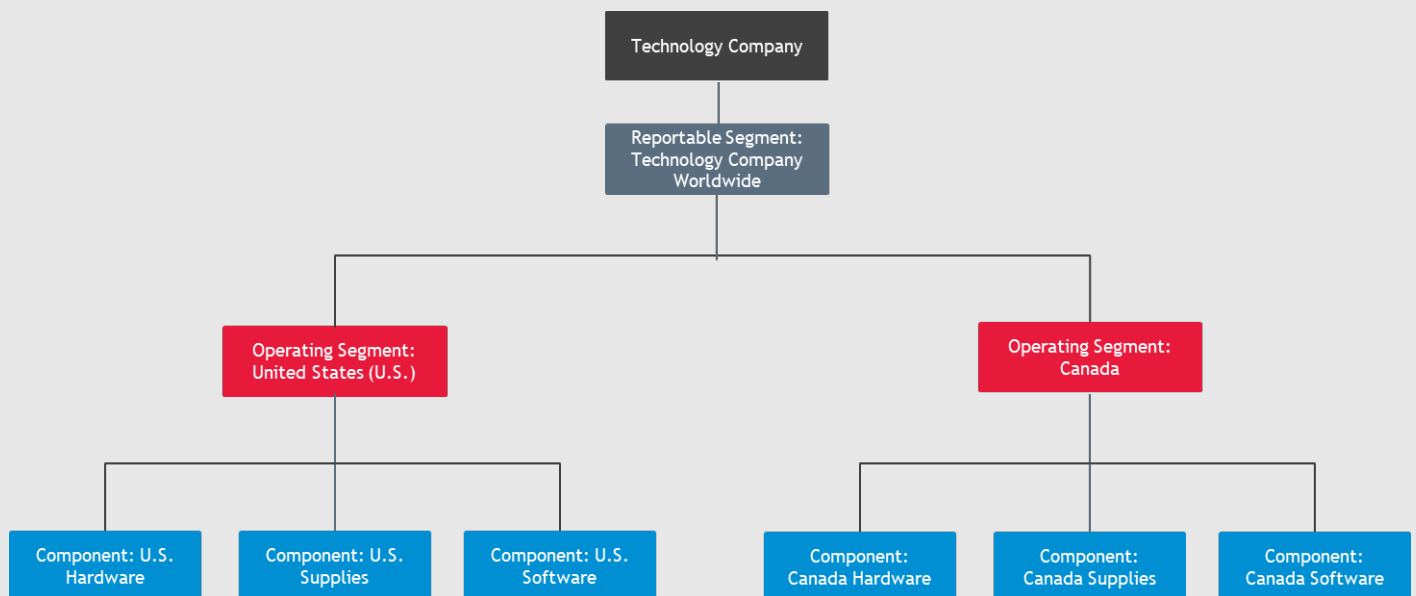
Example 4-1 illustrates these concepts.

EXAMPLE 4-1: IDENTIFYING ECONOMICALLY SIMILAR COMPONENTS

FACTS

- ▶ Technology Company has two operating segments (United States and Canada), which have been aggregated into a single reportable segment because the operating segments meet the aggregation criteria in ASC 280.
- ▶ Each operating segment has three components: Hardware, Supplies, and Software, as illustrated in the organization chart below.

- ▶ Each component meets the definition of a business and has discrete financial information that is regularly reviewed by segment management.
- ▶ The U.S. and Canada Hardware and Supplies components have similar production processes and share production facilities.
- ▶ The U.S. and Canada Hardware and Supplies components also benefit from common research and development projects.
- ▶ The components have approximately the following long-term gross margins:
 - U.S. Hardware: 20%
 - U.S. Supplies: 23%
 - U.S. Software: 50%
 - Canada Hardware: 21%
 - Canada Supplies: 24%
 - Canada Software: 48%



CONCLUSION

Technology Company identifies the following reporting units:

- ▶ U.S. Hardware and Supplies
- ▶ U.S. Software
- ▶ Canada Hardware and Supplies
- ▶ Canada Software

ANALYSIS

- ▶ Although the United States and Canada operating segments are aggregated into one reportable segment, because a reporting unit cannot be at a level higher than an operating segment, such aggregation must be disregarded when identifying reporting units. Therefore, Technology Company recognizes two operating segments: one for the U.S., and one for Canada.
- ▶ Next, Technology Company determines whether the reporting units exist at the operating segment level or at the component level. Because each component has all the characteristics of a reporting unit (that is, it has discrete financial information, it meets the definition of a business, and it is regularly reviewed by the segment manager), Technology Company concludes that the reporting units exist at the component level.

- ▶ Next, Technology Company assesses whether any components must be aggregated. It determines that the U.S. Hardware component must be aggregated with the U.S. Supplies component into a single reporting unit, because they are economically similar to each other; and that the Canada Hardware component must be aggregated with the Canada supplies component into a single reporting unit, because they are economically similar to each other. This is for the following reasons:
 - They have reasonably similar long-term gross margins
 - The 23% U.S. Supplies gross margin is only 15% greater than the 20% U.S. Hardware gross margin.
 - The 24% Canada Supplies gross margin is only 14% greater than the 21% Canada Hardware gross margin.
 - They produce similar products
 - They have similar production processes
 - They have similar customers
 - They share employees and production facilities
 - They benefit from the same research and development projects
- ▶ The U.S. Software component is not economically similar to the U.S. Hardware and U.S. Supplies components. Therefore, Technology Company does not aggregate the U.S. Software component with the U.S. Hardware and Supplies reporting unit.
- ▶ The Canada Software component is not economically similar to the Canada Hardware and Canada Supplies components. Therefore, Technology Company does not aggregate the Canada Software component with the Canada Hardware and Supplies reporting unit.
- ▶ Although the U.S. components and their respective Canada components are economically similar to each other (for example U.S. Hardware is economically similar to Canada Hardware), Technology Company cannot aggregate them into the same reporting unit because they are in different operating segments.

4.2.1.3 Reassessment of Reporting Units



FASB REFERENCES

ASC 350-20-35-45 through 35-46

If an entity changes its reporting structure, it must reassess its reporting units. Changes in the CODM or segment management, as well as acquisitions and disposals, often trigger organizational changes that affect the reporting structure; therefore, when such events occur, reassessment of reporting units is required following the steps in Section 4.2.1.

BDO INSIGHT 4-5: REASSESSMENT WHEN THE REPORTING UNIT CHARACTERISTICS ARE NO LONGER MET

We believe that a reassessment is also necessary if one or more components no longer has all the characteristics of a reporting unit (such as a component that no longer meets the definition of a business), or if the economic similarity of components changes.

If an entity's reporting units change, it must reassign the affected reporting units' assets and liabilities in accordance with the guidance in Section 4.2.3.2.2. In contrast, the entity must reassign the affected reporting units' goodwill using a relative fair value approach, similar to the approach used when a portion of a reporting unit is disposed (see Section 4.3). For example, if an existing reporting unit A is integrated into new reporting units B and C, the goodwill from reporting unit A would be assigned to reporting units B and C based on the relative fair values of the two portions of reporting unit A (not the relative fair values of reporting units B and C).

A change in reporting units is treated as a change in estimate and is accounted for prospectively in accordance with ASC 250.

BDO INSIGHT 4-6: ASSIGNING GOODWILL WHEN REORGANIZING REPORTING UNITS

When multiple reporting units are reorganized into one reporting unit without affecting other reporting units, the relative fair value allocation approach is not necessary because all goodwill associated with the predecessor reporting units is assigned to the successor reporting unit. However, if the reorganization affects other reporting units, the entity must apply the relative fair value approach.

BDO INSIGHT 4-7: IMPAIRMENT TESTING UPON A CHANGE IN REPORTING UNITS

An entity is not allowed to change its reporting structure to avoid impairment. As such, we believe that entities should test their goodwill for impairment immediately before and after making any changes to reporting units.

4.2.2 Timing of Impairment Test: Goodwill



FASB REFERENCES

ASC 350-20-35-28 through 35-30

Goodwill is not amortized (unless the private company alternative is elected — see Chapter 5). Instead, an entity must test goodwill at each reporting unit for impairment annually (see Section 4.2.2.1) and whenever events or circumstances indicate that it is more-likely-than-not that the reporting unit is impaired (see Section 4.2.1.2). A reporting unit is impaired if its fair value is less than its carrying amount.

4.2.2.1 Annual Impairment Test: Goodwill

4.2.2.1.1 Timing of Annual Impairment Test



FASB REFERENCES

ASC 350-20-35-1 and ASC 350-20-35-28

Optional qualitative assessment

Quantitative impairment test

An entity must test the goodwill of each reporting unit for impairment at least annually. In other words, there cannot be more than 12 months between testing dates. For example, goodwill that arises from a business combination must be tested for impairment within 12 months of the acquisition.

An entity may perform the annual impairment test on any date it wishes, but the test for a given reporting unit must be performed on the same date each year. Goodwill for different reporting units can be tested for impairment on different dates; however, in practice, entities will often elect to test all their reporting units on the same date.

BDO INSIGHT 4-8: SELECTING AN ANNUAL IMPAIRMENT TESTING DATE

When selecting a date for the annual impairment test, an entity might consider factors such as the following:

- ▶ The availability of information needed to complete the test
- ▶ The internal budgeting and forecasting cycle
- ▶ The time and resources needed to perform the impairment assessment
- ▶ The effects of seasonality on the reporting unit
- ▶ The timing of the annual impairment test for indefinite-lived intangible assets (if applicable, see Section 2.2.2.1)

Many entities choose to test goodwill as of the first day of the fourth fiscal quarter, to allow enough time to complete the analysis before annual financial statements are issued.

4.2.2.1.2 Change in Timing of Annual Impairment Test**FASB REFERENCES**

ASC 250-10-45-2, ASC 250-10-45-5, and ASC 250-10-45-9

A change in the timing of the annual impairment test qualifies as a change in accounting principle under ASC 250. As such, an entity can only change the date of its annual impairment test if the change is preferable. If an entity determines that a change in its goodwill impairment testing date is preferable, there cannot be more than 12 months between testing dates. Additionally, a change in testing dates cannot be used to avoid or accelerate an impairment.

Changes in accounting principles are generally required to be applied retrospectively (unless it is impractical to do so). However, retrospectively applying a date change to the annual goodwill impairment test would require entities to reperform prior tests, which would be impractical for the following reasons:

- ▶ The entity would have to determine assumptions about management's intent in a prior period that could not be independently substantiated.
- ▶ The entity would have to prepare significant estimates, and it would be challenging to distinguish information about those estimates that both:
 - Provides evidence of circumstances that existed on the retrospective dates at which those amounts would have been recognized, measured, or disclosed
 - Would have been available when the financial statements for that prior period were issued.

Therefore, changes in the timing of the annual goodwill impairment test are generally applied **prospectively**.

For most changes in accounting principle, an SEC registrant must file a preferability letter from its accountant with the SEC. However, as discussed in the following SEC speech, the SEC staff would not object if an entity does not file a preferability letter for a change in the annual goodwill impairment testing date, provided that the change was not material and that the registrant discloses that fact in its financial statements.



SEC STAFF GUIDANCE

Remarks before the 2014 AICPA Conference on Current SEC and PCAOB Developments

Carlton E. Tartar, Associate Chief Accountant, Office of the Chief Accountant

December 8, 2014

Goodwill Impairment Testing Date

... The staff observes that goodwill is required to be tested at the same date each year in Topic 350, while indefinite lived intangible assets do not have a similar requirement. This difference was the rationale for the staff historically requesting a preferability letter for a change in goodwill impairment testing date, since a change in testing date was viewed to be a change in the method of applying an accounting principle. As the FASB has requested input regarding potential areas where US GAAP can be simplified, this may be an area where stakeholders may want to comment. Absent any changes to US GAAP, 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.

4.2.2.2 Triggering Events Evaluation: Goodwill



FASB REFERENCES

ASC 350-20-35-3 through 35-3G and ASC 350-20-35-28 through 35-30

Triggering event(s)

Quantitative impairment test

An entity must test goodwill for impairment between annual testing dates whenever events or circumstances indicate that it is more-likely-than-not²⁶ that the goodwill is impaired. Such events or circumstances are known as “triggering events.” An entity must continually evaluate whether a triggering event has occurred.

ASC 350 provides the following **examples** of events and circumstances that could necessitate an interim impairment test:

²⁶ The phrase “more-likely-than-not” refers to a level of likelihood that is more than 50%.

EXAMPLES OF POTENTIAL TRIGGERING EVENTS FOR GOODWILL

	Macroeconomic conditions	▶ A deterioration in general economic conditions ▶ Limitations on accessing capital ▶ Fluctuations in foreign exchange rates ▶ Other developments in equity and credit markets
	Industry and market considerations	▶ A deterioration in the environment in which an entity operates ▶ Increased competition ▶ A decline in market-dependent multiples or metrics (either in absolute terms or relative to peers) ▶ Reduced demand for an entity's products or services ▶ Regulatory or political developments
	Cost factors	▶ Increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows
	Financial performance	▶ Negative or declining cash flows ▶ A decline in actual or projected revenue or earnings compared with actual and projected results of relevant prior periods
	Entity-specific events	▶ Changes in management, key personnel, strategy, or customers ▶ Contemplation of bankruptcy ▶ Litigation
	Other factors	▶ A change in the composition or carrying amount of the reporting unit's 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 ▶ Recognition of a goodwill impairment in the financial statements of a subsidiary that is a component of a reporting unit
	Share price	▶ A sustained decrease in share price (either in absolute terms or relative to peers)

BDO INSIGHT 4-9: WHAT CONSTITUTES A SUSTAINED DECREASE IN SHARE PRICE?

ASC 350 indicates that a sustained decrease in share price could suggest that goodwill might be impaired, but it does not provide any further guidance. We believe that an entity must consider all factors, including both the severity and length of the decline. For example, a severe decline that lasts for more than a few days might be deemed to be a sustained decrease in share price. Conversely, if the decrease in share price lies within the normal range of increases and decreases for that entity, or if it only lasts for a few days, the decline may not represent a sustained decrease.

Determining what constitutes a sustained decrease in share price requires the use of professional judgment based on facts and circumstances. However, we generally believe that the length of time should be measured in weeks rather than months.



ALL FACTS AND CIRCUMSTANCES MUST BE CONSIDERED

The examples in the preceding table are not an exhaustive list, and no single factor is conclusive.

Additionally, sometimes a combination of events and circumstances over time (rather than all at once) can trigger an interim impairment test. An entity must consider all relevant information, including positive and mitigating events and circumstances. For example, if a recent impairment test has demonstrated significant headroom between the fair value and the carrying amount of a reporting unit (that is, the fair value significantly exceeded the carrying amount), that fact can be considered when assessing whether it is more-likely-than-not the goodwill is impaired.

The analysis should focus on the events and circumstances that are most likely to affect the significant inputs used to determine the fair value of the reporting unit.

The SEC staff frequently questions registrants on the timing of recognized impairments. In such cases, the staff often asks registrants to explain why the impairment was recognized in the current period and not earlier, and what specific events or changes in circumstances triggered the impairment assessment.

Determining whether there has been a triggering event requires the use of professional judgment based on the facts and circumstances. Entities should design processes and controls to identify impairment indicators on a timely basis and should contemporaneously document management's evaluation of relevant events and circumstances.

BDO INSIGHT 4-10: A TRIGGERING EVENTS EVALUATION IS ESSENTIALLY A STEP 0 QUALITATIVE ASSESSMENT

The objective of a triggering events evaluation is the same as that of the optional Step 0 qualitative assessment (described in Section 4.2.3.1) that may be performed in place of the annual quantitative test. Therefore, if an entity concludes that a triggering event has occurred, it cannot perform a Step 0 assessment but must instead perform the quantitative test (see Section 4.2.3.2).



TESTING OTHER ASSETS FOR IMPAIRMENT IF A GOODWILL IMPAIRMENT TRIGGERING EVENT HAS OCCURRED

When an entity identifies a goodwill impairment triggering event, it should also consider whether the same events and circumstances trigger impairment testing for other assets, including indefinite-lived intangible assets. While the impairment tests for goodwill and indefinite-lived intangible assets are distinct, they are often interrelated; the assumptions made for one should be consistent for the other, since they reflect the underlying economics. For example, a decline in the fair value of a reporting unit might be caused by macroeconomic conditions that could also affect other aspects of the entity's business.

If indefinite-lived intangible assets, goodwill, or another asset (asset group or disposal group) are tested for impairment at the same time, the entity must apply the appropriate order of impairment testing (see Section 1.4).

BDO's publication, [Accounting and Reporting in Times of Economic Uncertainty](#), provides a summary of other accounting topics that may be relevant to an entity when a triggering event has occurred.

Example 4-2 illustrates a triggering events evaluation.

EXAMPLE 4-2: TRIGGERING EVENTS EVALUATION**FACTS**

- ▶ Travel Destination Group (“the Company”) has experienced a recent decline in bookings and an increase in cancellations due to new regulations and restrictions on travel in areas where the Company usually plans and books vacations and excursions for its customers. The regulations and restrictions are expected to remain in place for some time.
- ▶ Over the past 6 months, the Company has experienced a significant decline in actual versus projected revenue.
- ▶ Travel Destination Group operates in a single operating segment, which also represents its only reporting unit. Before the new regulations and restrictions were issued, the Company performed a fair value analysis for the purpose of valuing stock options granted to employees. Based on that analysis, the Company’s fair value was approximately 10% higher than its carrying amount.

CONCLUSION

The Company concludes that there has been a triggering event, and it must perform a goodwill impairment test.

ANALYSIS

Travel Destination Group must consider whether the events and circumstances identified could cause the reporting unit’s fair value to fall below its carrying amount. Because (i) the current economic environment has resulted in a significant revenue shortfall, (ii) there are indicators that the conditions will persist for some time, and (iii) in its last assessment, the Company’s carrying amount did not significantly exceed its fair value. Therefore, the Company concludes that there has been a triggering event, and it must perform a goodwill impairment test.

4.2.3 Performing the Impairment Test: Goodwill**FASB REFERENCES**

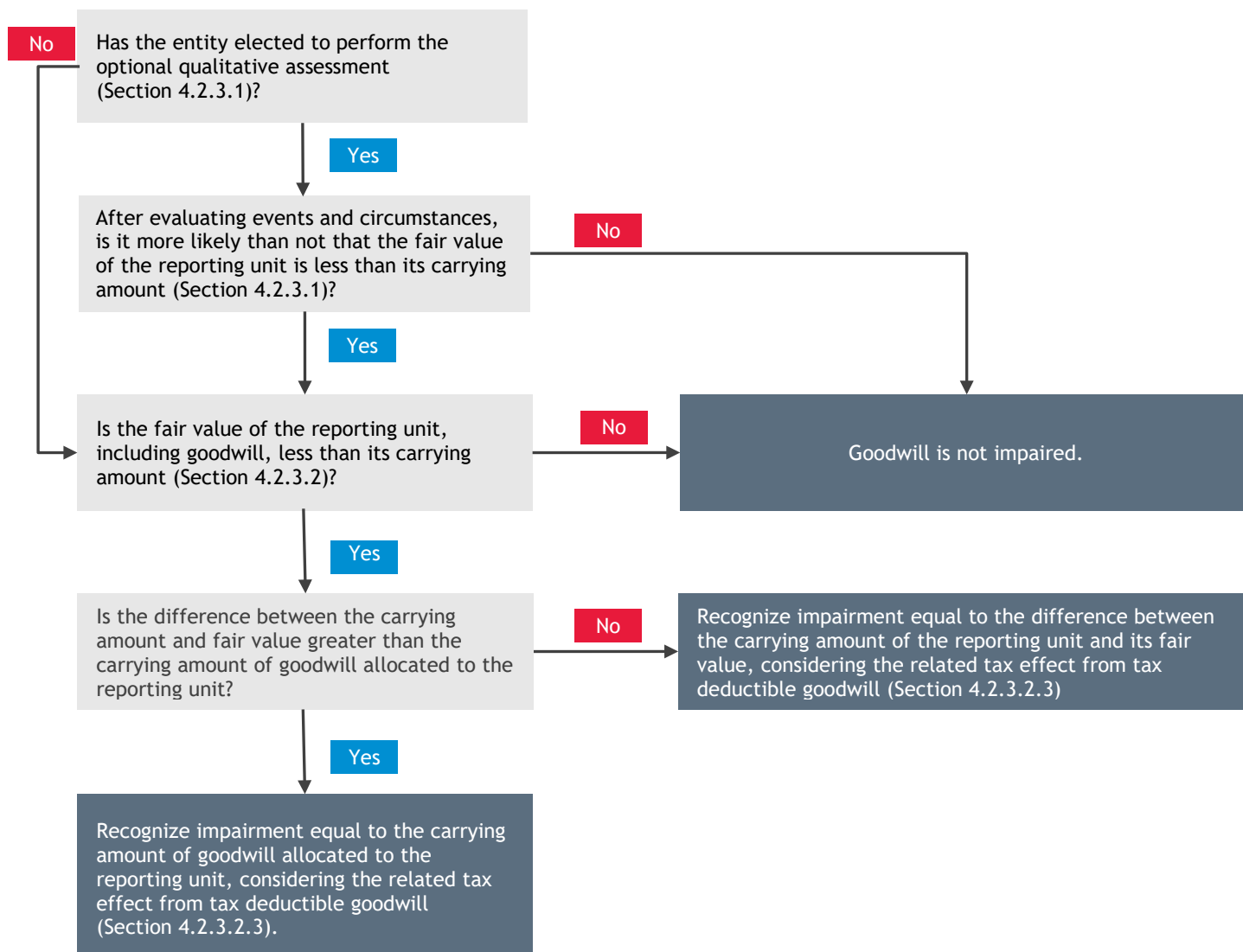
ASC 350-20-35-1 through 35-3, ASC 350-20-35-12 through 35-13, ASC 350-20-55-25

An entity must test goodwill at each reporting unit for impairment annually and whenever events or circumstances indicate that it is more-likely-than-not that the goodwill is impaired. A goodwill impairment exists when the reporting unit’s fair value is less than its carrying amount. There are two parts to the impairment test: an optional qualitative assessment (see Section 4.2.3.1) and a quantitative test (see Section 4.2.3.2).

Optional qualitative assessment

Quantitative impairment test

The following flowchart, which was adapted from ASC 350-20, summarizes the goodwill impairment testing steps:



4.2.3.1 Optional Qualitative Impairment Test: Goodwill



FASB REFERENCES

ASC 350-20-35-3 through 35-3G

At the annual impairment testing date, an entity has the option to bypass the quantitative impairment test if it can qualitatively demonstrate that it is not more-likely-than-not that the goodwill is impaired. This qualitative assessment is sometimes referred to as "Step 0".

To perform the qualitative assessment, the entity considers the same factors that indicate a potential triggering event (see Section 4.2.2.2). If the qualitative assessment demonstrates that impairment is unlikely, the quantitative impairment test is not required. Otherwise, the entity must perform the quantitative impairment test (see Section 4.2.3.2).

An entity is not required to perform the qualitative assessment but can elect to bypass Step 0 and go straight to the quantitative test. If an entity decides to bypass Step 0, it can resume the qualitative assessment in any subsequent period.

BDO INSIGHT 4-11: THE STEP 0 QUALITATIVE ASSESSMENT REQUIRES ROBUST EVIDENCE

At the annual impairment testing date, an entity can only bypass the quantitative test if the qualitative assessment demonstrates that it is **not** more-likely-than-not that the goodwill is impaired. If the entity concludes that a quantitative goodwill impairment test is not required, robust documentation should be prepared to support that conclusion. Generally, such documentation would include the events and circumstances taken into consideration during the qualitative assessment, at a level of precision that clearly supports the conclusion. In many cases, it may be more efficient to perform the annual quantitative test, especially if the company has readily available multi-year forecasts that can be used to support a discounted cash flow analysis. Therefore, many entities choose to skip the qualitative assessment and proceed directly to the quantitative test.

Determining whether qualitative evidence is sufficient to conclude that an annual quantitative test is not needed requires judgment based on the facts and circumstances.

4.2.3.2 Quantitative Impairment Test: Goodwill



FASB REFERENCES

ASC 350-20-35-4, ASC 350-20-35-6, ASC 350-20-35-8, and ASC 350-20-35-12 through 35-13

Goodwill must be tested for impairment annually and whenever events or circumstances indicate that it is more likely than not that the goodwill is impaired.

A quantitative impairment test is required, as follows:

- ▶ At the annual impairment testing date:
 - If the entity elects to bypass the qualitative assessment (see Section 4.2.3.1)
 - If the entity performs but does not pass the qualitative assessment (see Section 4.2.3.1)
- ▶ In between annual impairment tests, whenever a triggering event occurs (see Section 4.2.2.2)

The quantitative impairment test is a one-step test that compares the fair value of the reporting unit to its carrying amount:

- ▶ If the fair value exceeds the carrying amount, no impairment exists.
- ▶ If the carrying amount exceeds fair value, the difference is recognized as an impairment. However, the amount of impairment recognized cannot exceed the total goodwill allocated to the reporting unit.
- ▶ Once an impairment has been recognized, the adjusted basis of the goodwill becomes its new carrying amount, and subsequent reversals are not allowed.

Carrying amount	—	Fair value	=	Impairment (cannot exceed the total goodwill allocated to the reporting unit)
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Example 4-3 illustrates that the amount of impairment recognized cannot exceed the total goodwill allocated to a reporting unit.

EXAMPLE 4-3: DETERMINING GOODWILL IMPAIRMENT**FACTS**

- ▶ TechCo has four reporting units.
- ▶ At its annual impairment testing date, TechCo elects to bypass the qualitative impairment test.
- ▶ TechCo performs the quantitative impairment test for each reporting unit, comparing the fair values and carrying amounts as shown below.

CONCLUSION

The impairment amount of each reporting unit cannot exceed the total goodwill allocated to that particular reporting unit.

ANALYSIS

In determining the fair value of each reporting unit, TechCo reconciled the total fair value of all four reporting units to its market capitalization (see Section 4.2.3.2.1.2). TechCo compares the fair value of each reporting unit to its carrying amount and recognizes impairments as follows:

REPORTING UNIT	GOODWILL	REPORTING UNIT FAIR VALUE (A)	CARRYING AMOUNT, INCLUDING GOODWILL (B)	(A) - (B)	IMPAIRMENT
U.S. Hardware and Supplies	\$ 9,000	\$ 20,000	\$ 30,000	\$(10,000)	\$ (9,000) ^[a]
U.S. Software	12,000	40,000	30,000	10,000	—
Canada Hardware and Supplies	6,000	18,000	20,000	(2,000)	(2,000)
Canada Software	1,000	10,000	7,000	3,000	—
Total					<u>\$ (11,000)</u>

^[a] The impairment for the U.S. Hardware and Supplies reporting unit is limited to the total goodwill (\$9,000) allocated to that reporting unit.

4.2.3.2.1 Determining the Fair Value of a Reporting Unit

To perform the quantitative impairment test, an entity must determine the fair value of each reporting unit being tested. The fair value of the reporting unit is the price that the entity would receive if it sold the reporting unit in an orderly transaction to another market participant.

BDO INSIGHT 4-12: FAIR VALUE GENERALLY IS DETERMINED IN ACCORDANCE WITH ASC 820

The references to “fair value” in the impairment test do not explicitly link to the definition of fair value in ASC 820. However, we believe that the guidance in ASC 820 on fair value measurements should nevertheless be applied when performing the goodwill impairment test. Importantly, the objective of a fair value measurement performed in accordance with ASC 820 is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between **market participants** at the measurement date under current market conditions. It is not an entity-specific measurement.

Measuring the fair value of a reporting unit requires judgment based on the facts and circumstances. Professional valuation expertise is often needed.

Determining the fair value of a reporting unit involves the following:

- ▶ Selecting a valuation approach (see Section 4.2.3.2.1.1)
- ▶ Identifying control premiums (see Section 4.2.3.2.1.2)
- ▶ Reconciling to the market price (see Section 4.2.3.2.1.3)
- ▶ Assuming either a taxable or nontaxable transaction (see Section 4.2.3.2.1.4)
- ▶ Selecting a value premise (see Section 4.2.3.2.1.5)

4.2.3.2.1.1 Valuation Approaches



FASB REFERENCES

ASC 350-20-35-5, ASC 350-20-35-22 through 35-24, ASC 820-20: Cost Approach; Income Approach; Market Approach

ASC 820 provides three valuation approaches:

Market Approach

“A valuation approach that uses prices and other relevant information generated by market transactions involving identical or comparable (that is, similar) assets, liabilities, or a group of assets and liabilities, such as a business.”

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.”

Cost Approach²⁷

“A valuation approach that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).”

Determining what valuation techniques to use requires judgement, but the selected approach must be consistent with the fair value objective. It is often appropriate to consider multiple approaches to determine a reporting unit's fair value. For example, an entity may use a probability weighted technique that considers both a market approach (such as a valuation technique based on multiples of revenues or EBITDA²⁸) and an income approach (such as a discounted cash flow (DCF) method).

BDO INSIGHT 4-13: FAIR VALUE IS OFTEN DETERMINED THROUGH THE DISCOUNTED CASH FLOW METHOD

ASC 350-20 requires entities to use quoted market prices as the basis for the measurement, if available. However, for private companies (and reporting units of public companies that are not entity-level reporting units), there is often a lack of observable market data.²⁹ Therefore, the income approach (specifically, the DCF method) is the most used valuation method. Determining which valuation technique to use requires professional judgment based on the facts and circumstances.

²⁷ We believe that it generally would not be appropriate to use a cost approach to value most reporting units because it would be difficult to determine the cost of replacing goodwill.

²⁸ Earnings before interest, taxes, depreciation, and amortization

²⁹ In many cases, private companies have public competitors. If so, it may be appropriate to consider the publicly available information about those competitors, such as stock price or EBITDA multiples or other metrics in the fair value assessment.

The DCF method involves the following:

- ▶ Estimating the future cash flows for a certain discrete projection period.
- ▶ Estimating the terminal value.
- ▶ Discounting those amounts to present value at a rate of return that considers both the relative risk of the cash flows and the time value of money.

ASC 820 requires the use of market participant assumptions in determining fair value. Therefore, it is appropriate to consider whether the reporting unit's estimated future cash flows must be adjusted to remove entity-specific assumptions that would not be consistent with a market participant's assumptions.

The entity's estimate of future cash flows for the reporting unit may involve the preparation of (i) a single set of future cash flows or (ii) multiple sets of cash flows representing various possible scenarios, which are then probability-weighted to derive a single value. If using a single set of future cash flows, the entity must adjust the discount rate to incorporate the uncertainty in expectations about the future cash flows, which will generally result in a higher rate, reflective of the inherent risk. Conversely, a probability-weighted cash flow analysis already incorporates the uncertainty in expectations about the future cash flows; therefore, the discount rate should be commensurate only with the risk inherent in the reporting unit's underlying business.

As a starting point to determining the required rate of return (discount rate), the entity should use the weighted average cost of capital (WACC) to determine the rate that a market participant would demand based upon industry-weighted average returns on debt and equity adjusted for the relative advantages or disadvantages of the entity. An entity should include a terminal value at the end of the discrete projection period of a discounted cash flow analysis to reflect the remaining value that the reporting unit is expected to generate beyond the projection period. The terminal value represents the present value in the last year of the projection period of all subsequent cash flows into perpetuity and reflects a stable long-term growth rate. Generally, a growth rate consistent with expected inflation and gross domestic product (GDP) growth in the terminal year is appropriate for most entities, and a rate that exceeds expected inflation and GDP growth would be rare.

BDO INSIGHT 4-14: ADJUSTMENTS TO EXISTING CASH FLOW PROJECTIONS

When determining a reporting unit's fair value, an entity may have to adjust existing cash flow projections to reflect the following factors:

 Planned acquisition activity	Generally, cash flow projections should not include prospective cash flows expected to result from a future acquisition because market participant cash flows typically would not include assumptions for acquisition activity.
 Working capital	The DCF method estimates fair value assuming normal levels of working capital. Therefore, a reporting unit's fair value should be adjusted for any excess or deficit working capital on the measurement date. Cash is generally excluded from working capital in the DCF analysis. Net working capital is generally calculated on a debt-free basis by excluding the current portion of funded long-term debt because the cash flow model is typically prepared on a debt-free basis. However, when interest-bearing operating debt is part of working capital, the related interest expense would be included in the cash flows.
 Nonoperating assets and liabilities	To the extent that nonoperating assets and liabilities are reflected in the carrying amount of a reporting unit, its fair value should consider these assets and liabilities.

 Depreciation and amortization	While depreciation and amortization are not cash flow items, the tax benefits of depreciation and amortization result in cash tax savings and should be included in the cash flow projections used to determine a reporting unit's fair value.
 Share-based compensation	Non-cash expenses associated with share-based compensation should generally be included as a cash outflow when measuring the fair value of a reporting unit because these expenses are compensation in lieu of cash.
 Income tax rate	The appropriate tax rate would generally represent statutory rates adjusted for assumptions that are observable and applicable to market participants.
 Related party transactions	Intercompany transactions may require adjustment if the terms are not consistent with what market participants would expect to incur or receive.

Further, we believe that management should evaluate whether assumptions used in the goodwill impairment analysis are consistent with:

- ▶ Internal budgets and forecasts reviewed by management and the board of directors
- ▶ Forecasts used for strategic planning, financing activities, compensation arrangements, and other internal purposes
- ▶ Public communications, including earnings guidance and investor presentations, if applicable
- ▶ External market and industry data used by market participants.

If assumptions used in the impairment analysis differ from those used elsewhere within the organization, management should document the basis for those differences.

4.2.3.2.1.2 Control Premium



FASB REFERENCES

ASC 350-20-35-22 through 35-23

ASC 350-20 requires that an entity use quoted market prices as the basis for measuring a reporting unit's fair value, if available. For an entity with a single reporting unit, market capitalization (share price multiplied by the number of shares issued and outstanding) may provide evidence of the reporting unit's fair value. However, market capitalization might not be fully representative of the fair value of the reporting unit, when considering control synergies and other related benefits for which an acquirer may be willing to pay a premium. When a **control premium** exists, the reporting unit's fair value exceeds its market capitalization. Therefore, ASC 350-20 acknowledges that the quoted market price of an individual equity security need not be the sole measurement basis of a reporting unit's fair value.

For example, if an entity has one million shares outstanding and a share price of \$30, its market capitalization is \$30 million. However, if a potential buyer would be willing to pay a 20% control premium, the entity's fair value is actually \$36 million, not \$30 million.

An entity that relies on a control premium to conclude that goodwill is not impaired must justify the reasonableness of that premium. Generally, the higher the control premium, the more evidence that is needed.

BDO INSIGHT 4-15: EVALUATING A CONTROL PREMIUM

When evaluating the reasonableness of a control premium, an entity might consider factors such as the following:³⁰

 Control synergies	A market participant might be able to increase revenues and reduce costs by combining operations with a target. These synergies would be reflected in the projected cash flows used in a DCF analysis to the extent they are consistent with market participant assumptions. Because such synergies are generally not available to noncontrolling shareholders and therefore generally are not reflected in an entity's market capitalization, those synergies might contribute to a control premium.
 Asymmetric data	Management might have access to data that has not yet been made available to the public (for example, new product launches or cost reduction initiatives). Although not reflected in observed share prices, such information would typically be available to market participants through customary due diligence in a bidding process. If market participants would factor such information into the transaction price, that might contribute to a control premium.
 Tax consequences	An entity's share price generally reflects the price for a nontaxable transaction. As such, if an entity assumes it would sell a reporting unit in a taxable transaction (see Section 4.2.3.2.1.3), that assumption might contribute to a control premium.
 Capital structures	A market participant might be able to achieve a more optimal capital structure, including improvements to leverage or financial strategy, than that which is reflected in the entity's share price. If so, that potential might contribute to a control premium.
 Short positions	Significant short positions on the entity's stock often cause share price volatility. If such volatility causes the observed share price to be understated, yet does not affect market participants' assumptions, that discrepancy might contribute to a control premium.
 Large blocks of interests	Shareholders with large blocks of the entity's stock might influence decisions made by the entity, which in turn can affect the entity's share price. If market participants would make different decisions if the large blocks of interest were eliminated, it might contribute to a control premium.

The SEC Staff has also provided guidance for evaluating the reasonableness of a control premium:

**SEC STAFF GUIDANCE**

[Remarks before the 2008 AICPA National Conference on Current SEC and PCAOB Developments](#)

³⁰ AICPA *Accounting and Valuation Guide, Testing Goodwill for Impairment*, Chapter 4, paragraph 4.83. These factors refer to a target and transaction because for estimating fair value, it is assumed that a market participant would be buying the reporting unit (even when the entity is not planning such a sale).

Robert G. Fox III, Professional Accounting Fellow, Office of the Chief Accountant

December 8, 2008

Goodwill Impairment

Goodwill impairment under the provisions of [ASC 350] is another area that requires the use of judgment. For many registrants, this judgment may be more challenging in the current environment due to recent market declines that indicate that a potential impairment exists. While we would expect more goodwill impairments than in prior years given the current environment, the requirements of [ASC 350] do not require that goodwill be marked-to-market (or marked to market capitalization); however [ASC 350] does require a measurement of goodwill impairment when the fair value of the reporting unit falls below the carrying value of that reporting unit. For example, [ASC 350-20-35-23] points out, an entity might derive “substantial value” from the ability to obtain control. Accordingly, the market capitalization of an entity may not fully capture the fair value of the reporting units as a whole. However, the amount of a control premium in excess of a registrant’s market capitalization can require a great deal of judgment. Contrary to some rumors I have heard, the staff does not have “bright line” tests that we use in determining the reasonableness of a control premium. Instead, we believe that a registrant needs to carefully analyze the facts and circumstances of their particular situation when determining an appropriate control premium and that there is normally a range of reasonable judgments a registrant might reach. While it would be prudent to reconcile the combined fair value of your reporting units to your market capitalization, I believe that this should not be viewed as the only factor to consider in assessing goodwill for impairment.

When a registrant is evaluating an appropriate control premium, I believe that an important factor to consider is their recent trends in market capitalization. Note that I said recent trends in their market capitalization. Especially in volatile markets, and other unique circumstances, it may not always be reasonable to look at a single day’s market capitalization. In some cases, I believe it would be more reasonable to look at market capitalization over a reasonable period of time leading up to the date at which you are testing for potential impairment. However, I would also note that it would not be reasonable for a registrant to simply ignore recent declines in their stock price, as the declines are likely indicative of factors the registrant should consider in their determination of fair value, such as a more than temporary repricing of the risk inherent in any company’s equity that results in a higher required rate of return or a decline in the market’s estimated future cash flows of the company.

If a registrant concludes that their current market capitalization does not reflect fair value then they should understand that the staff may ask them to support the propriety of their control premium or other reasons for such a conclusion. For example, I believe that this support should be based on factors such as an evaluation of control premium identifiable in comparable transactions or the cash flows associated with obtaining control of a reporting unit. A percentage selected because it allows the registrant to avoid an impairment or one based on an arbitrary percentage determined by a “rule-of-thumb” would not appear to be well reasoned. Nor do I believe it is appropriate to support a control premium based on the quantitative percentage that the control premium is in excess of the market capitalization. I would also note that the amount of supporting evidence supporting your judgment would likely be expected to increase as any control premium increases.

4.2.3.2.1.3 Reconciling Fair Values of Reporting Units to the Market Price

BDO INSIGHT 4-16: RECONCILIATION OF FAIR VALUES TO MARKET PRICE

An entity might have more than one reporting unit and, therefore, cannot determine the fair value of its reporting units by reference to the entity’s share price. We believe that an entity with publicly traded equity must reconcile the total fair value of its reporting units to its market capitalization. The reconciliation serves as a reasonableness check for the goodwill impairment test conclusions.

In periods of significant market volatility, it might be appropriate to reconcile to the entity's market capitalization using an average share price over a reasonable period leading up to the impairment testing date, rather than using a single day's closing price.³¹ The entity must document its rationale for the length of the period used. The length of the averaging period requires judgment, but we believe that the time period must be relatively short and must reflect the fair value measurement objective, which is to capture the market conditions that existed as of the measurement date. The averaging period should not include prices from periods preceding significant entity-specific events, such as the loss of a major customer or revisions to earnings guidance, because such prices may not be representative of the entity's measurement date fair value. Additionally, the averaging period should not include share prices after the measurement date, because such prices reflect subsequent events.

When reconciling the total fair value of its reporting units to its market capitalization, an entity must also consider corporate (or centrally managed) assets and liabilities that are not assigned to individual reporting units (see Section 4.2.3.2.2). Part of the difference between the entity's market capitalization and the fair value of its reporting units could be attributable to unassigned assets and liabilities, rather than to a control premium.

When an entity performs the quantitative impairment test only for some of its reporting units (either because the reporting units are tested for impairment on different dates or because some of the reporting units passed the qualitative assessment), the market capitalization reconciliation can be challenging. In this situation, the entity would likely estimate the reporting units' measurement date fair values based on knowledge obtained from previous analyses.

Reconciling the total fair value of an entity's reporting units to its market capitalization requires judgment based on the facts and circumstances.

BDO INSIGHT 4-17: RECONCILIATION OF FAIR VALUES TO MARKET PRICE WHEN USING A MARKET APPROACH

If an entity uses a market approach (such as a multiple of revenues or EBITDA) that includes a control premium to determine the fair value of a reporting unit, it must reconcile the selected control premium used in the market approach with the implied control premium based on its market capitalization.

4.2.3.2.1.4 Effect of Deferred Taxes on Determining Fair Value of a Reporting Unit



FASB REFERENCES

ASC 350-20-35-25 through 35-27, ASC 350-20-35-76, and ASC 350-20-55-10 through 55-23

When estimating the fair value of a reporting unit, an entity must make an assumption about whether the reporting unit would be sold in a taxable or nontaxable transaction, based on the facts and circumstances.

ASC 350-20 discusses the following factors that an entity must consider:

- ▶ Whether the assumption is consistent with market participant assumptions
- ▶ The feasibility of the assumed structure
- ▶ Whether the assumed structure results in the highest and best use and would provide maximum value to the seller, including consideration of related tax implications

When assessing the feasibility of a nontaxable transaction, an entity must consider:

³¹ Remarks before the 2008 AICPA National Conference on Current SEC and PCAOB Developments by Robert G. Fox III, Professional Accounting Fellow, Office of the Chief Accountant at the SEC, as excerpted in Section 4.2.3.2.1.2.

- ▶ Whether the reporting unit could be sold in a nontaxable transaction
- ▶ Whether there are any income tax laws and regulations or other corporate governance requirements that could limit the entity's ability to treat a sale of the unit as a nontaxable transaction

Generally, when an entity concludes that a market participant would sell the reporting unit in a taxable transaction, the reporting unit's fair value will be higher, as a seller would expect to receive higher proceeds in a taxable transaction.



CARRYING AMOUNT INCLUDES DEFERRED TAXES REGARDLESS OF WHETHER AN ENTITY ASSUMES A TAXABLE OR NONTAXABLE TRANSACTION

When determining the **carrying amount** of a reporting unit, the entity must include deferred income tax assets and liabilities of the reporting unit, regardless of whether the reporting unit would be sold in a taxable or nontaxable transaction.

Examples 4-4 and 4-5 illustrate the guidance discussed in this section.

EXAMPLE 4-4 (ADAPTED FROM ASC 350-20-55-10 THROUGH 55-16): EFFECT OF A NONTAXABLE TRANSACTION ON THE QUANTITATIVE GOODWILL IMPAIRMENT TEST

FACTS

- ▶ Entity A is performing a quantitative impairment test for Reporting Unit Y at December 31, 20X2.
- ▶ Reporting Unit Y's carrying amount is \$90, which consists of the following:
 - Net assets (excluding goodwill and deferred income taxes): \$60 (with a tax basis of \$35)
 - Goodwill: \$40
 - Deferred tax liabilities (net): \$10
- ▶ Entity A could sell Reporting Unit Y for \$80 in a nontaxable transaction or for \$90 in a taxable transaction.
- ▶ Entity A's effective tax rate is 40%.
- ▶ If Reporting Unit Y were sold, Entity A would have the following current tax payable (based on the form of the transaction):
 - Nontaxable transaction: \$10
 - Taxable transaction: \$22 $(\$90 \text{ sales proceeds} - \$35 \text{ tax basis}) \times 40\%$

CONCLUSION

Market participants would act in their economic best interests by selling Reporting Unit Y in a nontaxable transaction. Entity A records an impairment of \$10.

ANALYSIS

- ▶ Entity A concludes that market participants would act in their best economic interests by selling Reporting Unit Y in a nontaxable transaction based on the following evaluation of the expected after-tax proceeds:

	NONTAXABLE		TAXABLE	
Gross proceeds (fair value)	\$	80	\$	90

Taxes arising from transaction	(10)	(22)
Value to Entity A	\$ 70	\$ 68

- ▶ Entity A compares Reporting Unit Y's \$80 fair value (assuming a nontaxable transaction) to its \$90 carrying amount and concludes that the excess of \$10 indicates that the reporting unit is impaired.
- ▶ Because the carrying amount of goodwill (\$40) is greater than the \$10 excess of the carrying amount of Reporting Unit Y compared with its fair value, Entity A records the entire \$10 as the impairment.

EXAMPLE 4-5 (ADAPTED FROM ASC 350-20-55-17 THROUGH 55-23): EFFECT OF A TAXABLE TRANSACTION ON THE QUANTITATIVE GOODWILL IMPAIRMENT TEST

FACTS

- ▶ Entity A is performing a quantitative impairment test for Reporting Unit Y on December 31, 20X2.
- ▶ Reporting Unit Y's carrying amount is \$90, which consists of the following:
 - Net assets (excluding goodwill and deferred income taxes): \$60 (with a tax basis of \$35)
 - Goodwill: \$40
 - Deferred tax liabilities (net): \$10.
- ▶ Entity A could sell Reporting Unit Y for \$65 in a nontaxable transaction or for \$80 in a taxable transaction.
- ▶ Entity A's effective tax rate is 40%.
- ▶ If Reporting Unit Y were sold, Entity A would have the following current tax payable (based on the form of the transaction):
 - Nontaxable transaction: \$4
 - Taxable transaction: \$18 ($[\$80 \text{ sales proceeds} - \$35 \text{ tax basis}] \times 40\%$)

CONCLUSION

Market participants would act in their best economic interests by selling Reporting Unit Y in a taxable transaction. Entity A records an impairment of \$10.

ANALYSIS

- ▶ Entity A concludes that market participants would act in their best economic interests by selling Reporting Unit Y in a taxable transaction based on the following evaluation of the expected after-tax proceeds:

	NONTAXABLE	TAXABLE
Gross proceeds (fair value)	\$ 65	\$ 80
Taxes arising from transaction	(4)	(18)
Value to Entity A	\$ 61	\$ 62

- ▶ Entity A compares Reporting Unit Y's \$80 fair value (assuming a taxable transaction) to its \$90 carrying amount and concludes that the excess of \$10 indicates that the reporting unit is impaired.
- ▶ Because the carrying amount of goodwill (\$40) is greater than the \$10 excess of the carrying amount of Reporting Unit Y compared with its fair value, Entity A records the entire \$10 as the impairment.

4.2.3.2.1.5 Enterprise Value or Equity Value

ASC 350-20 does not specify whether an entity must use an enterprise value or an equity value premise to determine the fair value of a reporting unit. As such, either premise is acceptable. However, the selected premise must be

consistent with the premise for determining the reporting unit's carrying amount and must be applied consistently from period to period.

An enterprise value premise considers the value of the reporting unit without considering the reporting unit's capital structure (that is, the mix of debt and equity). Conversely, the equity value premise considers the reporting unit's capital structure. In other words, an enterprise value premise excludes the reporting unit's debt; an equity value premise includes the reporting unit's debt.

The selected premise generally does not affect the outcome of the impairment test when the carrying amount of the reporting unit's debt approximates fair value. However, if the carrying amount of the reporting unit's debt does not approximate fair value, the selected valuation premise could affect the impairment assessment. Additionally, for reporting units with zero or negative equity, using an enterprise value premise could result in impairment, whereas using an equity value premise generally would not (because the fair value of equity generally cannot be less than zero) (see Section 4.2.3.2.5). Example 4-6 illustrates the difference between an equity value premise and an enterprise value premise.

EXAMPLE 4-6: ENTERPRISE VALUE VERSUS EQUITY VALUE – QUANTITATIVE IMPAIRMENT TEST

FACTS

- ▶ Entity A performs a quantitative impairment test for Reporting Unit Y at December 31, 20X2.
- ▶ Reporting Unit Y's assets and liabilities are as follows:
 - Assets (excluding goodwill): \$50
 - Goodwill: \$30
 - Debt: \$20
 - Other liabilities: \$10
- ▶ The fair value of Reporting Unit Y's debt is the same as its carrying amount (\$20).
- ▶ Reporting Unit Y's fair value (based on the premise used) is:
 - Enterprise value premise: \$60
 - Equity value premise: \$40

CONCLUSION

Entity A would recognize an impairment of \$10 using either an enterprise value premise or an equity value premise.

ANALYSIS

The resulting impairment is calculated as follows using the enterprise and equity premises:

	ENTERPRISE VALUE PREMISE	EQUITY VALUE PREMISE
Assets (excluding goodwill)	\$ 50	\$ 50
Goodwill	30	30
Debt	N/A	(20)
Other liabilities	(10)	(10)
Reporting Unit Y's carrying amount	70	50
Reporting Unit Y's fair value	60	40
Preliminary impairment	\$ 10	\$ 10
Goodwill balance	\$ 20	\$ 20

Impairment (the greater of the preliminary impairment or goodwill balance)	\$	10	\$	10
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4.2.3.2.2 Determining the Carrying Amount of a Reporting Unit

 FASB REFERENCES

ASC 350-20-35-7, ASC 350-20-35-39 through 35-40, and ASC 350-20-35-76

To perform the quantitative impairment test, an entity must determine the carrying amount of each reporting unit being tested. Before determining the reporting unit’s carrying amount, all the reporting unit’s other assets must be adjusted, if necessary, in accordance with other U.S. GAAP (see Section 1.4.3).

The entity assigns assets and liabilities to the reporting unit as of the acquisition date or (if applicable) the date reporting units were reorganized (see Section 4.2.1.3). An entity assigns assets and liabilities to a reporting unit if **both** of the following criteria are met:



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



The asset or liability will be considered in determining the reporting unit’s fair value.

The entity must also apply these criteria when assigning corporate (or centrally managed) assets and liabilities. For example, if an environmental remediation liability is related to a manufacturing facility that is operated by a particular reporting unit, it would generally be assigned to that reporting unit, even if the liability is managed centrally. Similarly, if a pension obligation related to employees who work within a particular reporting unit will be considered in determining the reporting unit’s fair value, it must be assigned to that reporting unit, even if the obligation is managed at the corporate level.

Some assets and liabilities might meet the above criteria for multiple reporting units. In such cases, the entity must use a reasonable and supportable methodology to assign portions of those assets or liabilities to their respective reporting units. For example, assets and liabilities could be assigned based on the benefit received by the reporting units or based on their relative fair values. Similarly, a pension obligation covering employees across several reporting units might be assigned on a pro rata basis based on payroll expense. Whatever methodology is used, it must be consistently applied. When determining how to assign portions of those assets and liabilities to reporting units, documentation regarding the basis for and method of determining the fair value of the acquiree at the acquisition date, including factors (such as the underlying reasons for the acquisition and management’s expectations related to dilution, synergies, and other financial measurements), may be helpful in determining an appropriate methodology.

When determining the carrying amount of a reporting unit, the entity must include deferred income taxes related to the assets and liabilities of the reporting unit, regardless of whether the reporting unit would be sold in a taxable or nontaxable transaction (see Section 4.2.3.2.1.4).

4.2.3.2.2.1 Cumulative Translation Adjustments



FASB REFERENCES

ASC 350-20-35-39A and ASC 830-30-45-12 through 45-13

ASC 830-30-20: Foreign Entity

In accordance with ASC 830, an entity recognizes a cumulative translation adjustment (CTA) in AOCI when it translates the financial statements of a foreign subsidiary from its functional currency to the reporting currency.

Foreign Entity

An operation (for example, subsidiary, division, branch, joint venture, and so forth) whose financial statements are both:

- a. Prepared in a currency other than the reporting currency of the reporting entity*
- b. Combined or consolidated with or accounted for on the equity basis in the financial statements of the reporting entity.*

When testing the goodwill of a reporting unit, the entity generally excludes the CTA from the carrying amount of the reporting unit. In other words, the entity only includes the currently translated balances of the assets and liabilities of the reporting unit.

However, if an entity has committed to a plan (see Section 3.3.2.1) to dispose of a reporting unit (or portion of a reporting unit) that will cause the CTA for an equity-method investment or a consolidated investment in a foreign entity to be reclassified to earnings, the entity must include the CTA in the carrying amount of the reporting unit when evaluating goodwill for impairment.

4.2.3.2.2.2 Debt

The determination whether to include debt in a reporting unit must be consistent with the valuation premise used to determine the reporting unit's fair value (see Section 4.2.3.2.1.4). Therefore, if the entity uses an enterprise value premise to determine the fair value of the reporting unit, it excludes debt from the carrying amount of the reporting unit. However, if the entity uses an equity value premise, the carrying amount must include any debt that meets the two criteria in Section 4.2.3.2.2.

BDO INSIGHT 4-18: CORPORATE DEBT

General corporate debt typically does not meet the criteria to be assigned to a reporting unit. However, debt that is specific to a reporting unit, such as a loan on real estate used in the reporting unit's operations, often does meet the criteria to be assigned to a reporting unit.

4.2.3.2.2.3 Contingent Consideration

An entity could have a contingent consideration liability (or asset) arising from a business combination or similar transaction. Contingent consideration must be allocated to a reporting unit if the two criteria in Section 4.2.3.2.2 are met.

When the reporting unit is the legal obligor for contingent consideration, generally the liability would be assigned to the reporting unit. Additionally, even if the reporting unit is not the legal obligor, it would be appropriate to include the contingent consideration liability (or asset) in the carrying amount of the reporting unit if market participants would assume the obligation (or rights) for the contingent consideration liability (or asset) in a sale of the reporting unit. This concept is different from pushdown accounting, which generally prohibits pushing down liabilities to an entity that is not the legal obligor (see Section A.6.3 of BDO's Blueprint, [Business Combinations Under ASC 805](#)).

4.2.3.2.2.4 Assigning Goodwill to Reporting Units

 FASB REFERENCES

ASC 350-20-35-41 through 35-44

An entity must assign the goodwill acquired in a business combination (or NFP acquisition) or recognized by a joint venture upon formation to one or more reporting units as of the acquisition date or the joint venture formation date. Similarly, goodwill recognized in fresh-start accounting under ASC 852 must also be assigned to one or more reporting units. The goodwill is assigned to the reporting units that are expected to benefit from the synergies of the combination, even if other assets or liabilities of the acquired entity are not assigned to that reporting unit. An entity must follow a reasonable and supportable methodology for assigning goodwill to reporting units and must consistently apply that methodology.

ASC 350-20 does not prescribe a particular method but indicates that the method must be consistent with the objectives of assigning goodwill to reporting units. ASC 350-20 describes two potential methods for assigning goodwill:

 Acquisition method	If goodwill is assigned to a reporting unit that has been assigned at least some of the identifiable assets acquired and liabilities assumed in that acquisition, the goodwill is the difference between the fair value of the reporting unit and the identifiable net assets assigned to it (see Example 4-7). This method is similar to the approach for recognizing goodwill in a business combination.
 With-and-without method	If goodwill is assigned to a reporting unit that has not been assigned any of the identifiable assets acquired or liabilities assumed in that acquisition, the goodwill might be determined by a “with-and-without” calculation based on the difference between the reporting unit’s fair value before and after the acquisition (see Example 4-8).

BDO INSIGHT 4-19: OTHER METHODS OF ASSIGNING GOODWILL TO REPORTING UNITS

Other methods of assigning goodwill to reporting units may be acceptable if they are reasonable, supportable, and consistently applied. An entity must select the methodology to use based on its facts and circumstances. Regardless of the method selected, we believe that it should not result in an immediate impairment.

Although ASC 350-20 requires that an entity assign all goodwill to reporting units, this does not mean that the entity must include goodwill in its reported **segments** in accordance with ASC 280. The entity only includes goodwill in its segment assets if goodwill is included in the internal measure of segment assets reviewed by the CODM (see Section 4.4. of BDO’s Blueprint, [Segment Reporting Under ASC 280](#)).

Examples 4-7 and 4-8 illustrate the acquisition method and the with-and-without method, respectively.

EXAMPLE 4-7: ASSIGNING GOODWILL TO REPORTING UNITS - ACQUISITION METHOD**FACTS**

- ▶ Entity A acquires a business for \$20,000, which includes two reporting units with fair values of:
 - Reporting Unit Y: \$14,000
 - Reporting Unit Z: \$6,000
- ▶ The acquired business has identifiable net assets with fair values totaling \$12,000, as follows:
 - Reporting Unit Y: \$11,000
 - Reporting Unit Z: \$1,000
- ▶ Goodwill from the business combination is \$8,000.

CONCLUSION

Entity A assigns \$3,000 of goodwill to Reporting Unit Y and \$5,000 of goodwill to Reporting Unit Z, using the acquisition method.

ANALYSIS

- ▶ Entity A determines that Reporting Units Y and Z will both benefit from synergies of the business combination.
- ▶ Entity A uses the acquisition method to assign goodwill to each reporting unit, as follows:

	REPORTING UNIT Y	REPORTING UNIT Z	TOTAL
Fair value of acquired business	\$ 14,000	\$ 6,000	\$ 20,000
Fair value of acquired identifiable net assets	11,000	1,000	12,000
Goodwill	\$ 3,000	\$ 5,000	\$ 8,000

EXAMPLE 4-8: ASSIGNING GOODWILL TO REPORTING UNITS – WITH-AND-WITHOUT METHOD**FACTS**

- ▶ Entity A has one existing reporting unit (Reporting Unit Y).
- ▶ Entity A acquires a business for \$20,000, which represents a second reporting unit (Reporting Unit Z). The acquired business has identifiable net assets with a \$13,000 fair value, all which are allocated to Reporting Unit Z.
- ▶ Goodwill from the business combination is \$7,000.
- ▶ Reporting Unit Y's fair value was \$8,000 before (without) the business combination and is \$10,000 after (with) the business combination, due to synergies that will result from acquiring the business.

CONCLUSION

Entity A assigns \$2,000 of goodwill to Reporting Unit Y using the with-and-without method, and assigns the remaining \$5,000 of goodwill to Reporting Unit Z.

ANALYSIS

- ▶ Entity A determines that Reporting Units Y and Z will both benefit from synergies of the business combination.
- ▶ Entity A uses the with-and-without method to assign goodwill to each reporting unit as follows:

	REPORTING UNIT Y	REPORTING UNIT Z	TOTAL
Fair value of Reporting Unit Y with the acquisition	\$ 10,000	\$ —	\$ —
Fair value of Reporting Unit Y without the acquisition	(8,000)	—	—
Goodwill	\$ 2,000	\$ 5,000	\$ 7,000

4.2.3.2.3 Allocating Goodwill Impairment Between Component 1 and Component 2**FASB REFERENCES**

ASC 350-20-35-8 through 35-8B, ASC 350-20-55-23A through 55-23D, and ASC 805-740-55-9 through 55-13

To facilitate the accounting for income taxes for goodwill, ASC 740 separates goodwill into two components at the acquisition date. Components 1 and 2 are defined as follows:

- ▶ Component 1: the lesser of goodwill for financial reporting (book-basis goodwill) or tax-deductible goodwill (tax-basis goodwill) at the acquisition date.
- ▶ Component 2: the remainder of the goodwill (the excess of either book-basis goodwill or tax-basis goodwill over the identified Component 1 goodwill).

The graphic below illustrates this concept.

GOODWILL COMPONENTS

BOOK BASIS GREATER THAN TAX BASIS		
	Book	Tax
Component 1	\$ 1,000	\$ 1,000
Component 2	1,000	—
	<u>\$ 2,000</u>	<u>\$ 1,000</u>

TAX BASIS GREATER THAN BOOK BASIS		
	Book	Tax
Component 1	\$ 1,000	\$ 1,000
Component 2	—	1,000
	<u>\$ 1,000</u>	<u>\$ 2,000</u>

For **Component 1**, there are no temporary differences to recognize at the acquisition date because the book and tax bases are identical. However, after the acquisition date, deferred taxes are recognized for any temporary differences that result from the different accounting and tax treatments.

For **Component 2** goodwill, the accounting depends on whether the book basis or tax basis is greater.

- ▶ **Book-over-tax goodwill:** No deferred tax liability (DTL) is recognized because ASC 805-740 prohibits recognition of a DTL for nondeductible goodwill. Any subsequent changes in the book-over-tax Component 2 goodwill (for example, because of impairment of goodwill or amortization under the private company alternative) are reflected as permanent differences in the income tax provision.
- ▶ **Tax-over-book goodwill:** A deferred tax asset (DTA) is recognized in acquisition accounting (subject to realization assessment). In most circumstances, the DTA is calculated using the simultaneous equations method (see below).

$$\left(\text{Tax Rate} \div (1 - \text{Tax Rate}) \right) \times \text{Preliminary Temporary Difference} = \text{DTA}$$

Recognizing a goodwill impairment for financial reporting results in changes in deferred taxes for tax-deductible goodwill. Because ASC 740 separates goodwill into two components, the entity must allocate the goodwill impairment between those components. The impairment allocated to Component 1 goodwill will either decrease a previously created DTL or increase (or create) a DTA. The impairment allocated to Component 2 book goodwill will have no current or deferred tax effect (it is a permanent difference). ASC 350 and ASC 740 do not provide guidance for allocating the impairment to the components of goodwill.

BDO INSIGHT 4-20: ALLOCATING GOODWILL IMPAIRMENT BETWEEN COMPONENTS 1 AND 2 GOODWILL

ASC 350 and ASC 740 do not provide guidance for allocating a goodwill impairment between Components 1 and 2. Therefore, entities must perform the allocation using a reasonable approach. We believe one acceptable approach is to allocate the goodwill impairment between Components 1 and 2 based on their relative carrying amounts (pro rata). We believe another acceptable approach is to attribute the impairment charge to Component 2 book-over-tax goodwill first.

The chosen approach must be reasonable and consistently applied.

For impairments allocated to component 1 goodwill, ASC 350 requires the entity to compute the impairment and related deferred tax effects using the simultaneous equation method (see below), which includes increasing the preliminary impairment to reflect the deferred tax benefit.

$$\left(\text{Tax Rate} \div (1 - \text{Tax Rate}) \right) \times \text{Preliminary Impairment} = \text{Deferred Tax Effect}$$

4.2.3.2.4 Allocating Goodwill Impairment Between Controlling and Noncontrolling Interests



FASB REFERENCES

ASC 350-20-35-57A, ASC 810-10-45-19 through 45-20

If a reporting unit includes goodwill attributable to both the parent and a subsidiary with noncontrolling interest (NCI), any goodwill impairment must be allocated between the parent's controlling interest and the NCI on a rational basis, regardless of whether the subsidiary applied pushdown accounting in its separate financial statements (see Section 7.3.3.3.5 of BDO's Blueprint, [Control and Consolidation Under ASC 810](#)).

4.2.3.2.5 Reporting Units with a Zero or Negative Carrying Amount



FASB REFERENCES

ASC 350-20-50-1A

Reporting units with a zero or negative carrying amount must apply the same single-step impairment test as other reporting units. In most cases, the single-step impairment test for a reporting unit with a zero or negative carrying amount will not result in an impairment because the fair value of a reporting unit is rarely negative. However, the entity must disclose the amount of goodwill attributed to reporting units with a zero or negative carrying amount.

BDO INSIGHT 4-21: USING AN ENTERPRISE PREMISE OR EQUITY PREMISE

U.S. GAAP does not specify whether a reporting unit is tested for impairment using an enterprise value premise or an equity value premise (see Section 4.2.3.2.1.5), but the selected method should generally be consistently applied, even if the carrying amount of the reporting unit is zero or negative. However, there could be circumstances in which changing from an equity value premise to an enterprise value premise is appropriate.

In BC52 of ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, the FASB indicated that “if a reporting unit with a negative carrying amount is reevaluated and the entity determines that a more representative impairment evaluation could be performed under the one-step test using an enterprise premise of fair value, it would be reasonable for it to exclude previously included financing liabilities from the carrying amount of the reporting unit.”

Therefore, a reporting unit with a zero or negative carrying amount may consider whether using an enterprise value premise would provide a more representative impairment evaluation than an equity value premise. The entity 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 calculated consistently with the determination of its fair value.

4.2.3.2.6 Goodwill Impairment Shortly After Acquisition

BDO INSIGHT 4-22: GOODWILL IMPAIRMENT SHORTLY AFTER ACQUISITION

Although it is theoretically possible for an acquirer to overpay for a business, the FASB concluded that any potential overpayment would not likely be detectable or known at the acquisition date and would be difficult, if not impossible, to quantify.³² Therefore, it concluded that potential overpayments are not accounted for separately from other goodwill but are instead addressed through subsequent impairment testing. We believe it would be unusual to recognize a goodwill impairment shortly after an acquisition. However, an entity must consider all facts and circumstances when determining whether a triggering event has occurred (see Section 4.2.2.2) and in measuring any resulting impairment (see Section 4.2.3.2).

³² FAS 141(R), Basis for Conclusions, paragraph B382

4.2.3.2.7 Goodwill Impairment Testing by a Subsidiary



FASB REFERENCES

ASC 350-20-35-47 through 35-49

Subsidiary goodwill may arise from any of the following:

- ▶ Acquisitions made by a subsidiary prior to its acquisition by the parent
- ▶ Acquisitions made by a subsidiary subsequent to its acquisition by the parent
- ▶ Goodwill that was pushed down to the subsidiary's financial statements as a result of a business combination by the parent

A subsidiary that issues separate financial statements must test its goodwill for impairment using the subsidiary's (rather than the parent's) reporting units. Further, if a subsidiary recognizes a goodwill impairment in its separate financial statements, that impairment is not recognized by the parent. Instead, the parent must separately evaluate whether it is more-likely-than-not that the event or circumstance that gave rise to the subsidiary-level impairment indicates that the goodwill at the consolidated-level might also be impaired. If so, the parent performs a goodwill impairment test for its consolidated-level reporting units.

Similarly, an impairment test performed by a parent for its consolidated financial statement does not directly affect the subsidiary's separate financial statements. However, the subsidiary must consider whether there has been a triggering event (see Section 4.2.2.2) that would require it to perform an impairment test.

4.3 DISPOSAL OF ALL OR A PORTION OF A REPORTING UNIT



FASB REFERENCES

ASC 350-20-35-51 and ASC 350-20-40-1 through 40-7

When an entity disposes of a business or a subsidiary that is within the scope of ASC 810, the entity must calculate a gain or loss (see Section 7.5.2 of BDO's Blueprint, [Control and Consolidation Under ASC 810](#)). For the purposes of that calculation, the entity must allocate goodwill as follows:

- ▶ If a reporting unit is to be disposed of in its entirety, that reporting unit's goodwill is included in the carrying amount of the net assets in determining the gain or loss.
- ▶ If only a portion of a reporting unit that meets the definition of a business is disposed of, goodwill is allocated to the disposal group before determining the gain or loss (see ASC 350-20). Therefore, an entity may need to include goodwill in a disposal group even if goodwill was not previously assigned to the asset group while it was classified as held and used.
 - Goodwill is generally allocated to a disposal group based on the relative fair values of the business to be disposed of and the portion of the reporting unit that will be retained.
 - However, if an acquired business to be disposed of was never integrated into the reporting entity, the entire carrying amount of that acquired goodwill would be included in the disposal group. For example, this might happen when management operates the acquired business or nonprofit activity as a standalone entity or plans to dispose of the business or nonprofit activity shortly after acquisition, although such fact patterns are expected to be rare.
 - When only part of a reporting unit is disposed of, the goodwill that remains in the reporting unit must be tested for impairment (see Section 4.2.3).

- ▶ If a private company or NFP entity has elected the accounting alternative for amortizing goodwill, it is not required to allocate goodwill on a relative fair value basis. Instead, it must use a reasonable and rational approach (see Section 5.3.1.6).

No goodwill should be assigned to a disposal group and included in the gain or loss recognized upon deconsolidation if the portion of a reporting unit that is being disposed of does not meet the definition of a business (see Chapter 3 of BDO's Blueprint, [Business Combinations Under ASC 805](#), for guidance on the definition of a business).

Chapter 5: Accounting Alternatives for Private Companies and Not-For-Profit Entities



5.1 OVERVIEW

U.S. GAAP provides private companies and NFP entities several accounting alternatives related to goodwill and intangible assets that arise from business combinations (and NFP acquisitions) in accordance with ASC 805, the initial accounting by joint ventures in accordance with ASC 805-60, or fresh-start accounting in accordance with ASC 852. These accounting alternatives are meant to simplify the accounting for goodwill and intangible assets and may provide relief for entities that elect them. The following accounting alternatives are available:

Goodwill	▶ Amortization of goodwill on a straight-line basis over 10 years (or less than 10 years if the entity demonstrates that another useful life is more appropriate)	Section 5.3
	▶ Evaluation of goodwill impairment triggering events only as of the end of each reporting period, whether the reporting period is an interim or annual period	Section 5.4
Intangible assets	▶ Non-separation of specific customer-related intangible assets and noncompetition agreements from goodwill (an acquirer must continue to identify and measure other intangible assets separately from goodwill)	Section 5.5

The goodwill accounting alternatives can be elected independently, meaning that an entity which qualifies for these elections can apply either or both. Furthermore, an entity that elects either or both goodwill accounting alternatives is not required to elect the intangible assets accounting alternative. However, an entity that elects the intangible assets accounting alternative must also adopt the accounting alternative for amortizing goodwill to prevent subsuming finite-lived intangible assets into indefinite-lived goodwill.

Entities that qualify for these accounting alternatives do not need to perform a preferability assessment the first time they elect the alternatives; however, any subsequent changes in accounting policy would need to be preferable in accordance with ASC 250.



ADOPTION OF PRIVATE COMPANY ALTERNATIVES

An entity can adopt the private company accounting alternatives at any time. However, once adopted they must be applied consistently to all future business combinations (and NFP acquisitions) unless there is a future change in accounting policy.

5.2 ELIGIBILITY TO ELECT THE ACCOUNTING ALTERNATIVES



FASB REFERENCES

ASC 805-20-20: 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.

ASC 805-20-20: 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.

ASC 805-20-20: 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.*

To be eligible to elect the accounting alternatives for goodwill and intangible assets, an entity must meet the definition of a private company or NFP entity. Entities that want to elect these alternatives must determine whether they meet the definitions.

If an entity meets the definition of a public business entity solely because its financial statements are included in another entity's SEC filing, it is a public business entity for purposes of filing or furnishing information with the SEC, and thus would not qualify for the accounting alternatives for any financial statements filed with the SEC. However, the entity could still elect the accounting alternatives in its standalone financial statements that are not filed or furnished with the SEC.



ENTITIES SHOULD BE CAUTIOUS WHEN ADOPTING PRIVATE COMPANY ALTERNATIVES

Before making an election to apply any of the accounting alternatives discussed in this chapter, an entity should consider whether it expects to meet the definition of a public business entity in the future (for example, through an initial public offering or sale of the entity to a public company). If so, it would be required to unwind its accounting under the private company accounting alternatives and retrospectively adjust its historical financial statements to comply with U.S. GAAP for public business entities. That exercise may be costly and difficult and become increasingly complex as time passes. For example, upon becoming a public business entity, an entity that previously adopted the alternative to amortize goodwill would not only need to unwind the historical amortization, it would also need to perform goodwill impairment tests during each historical period without using hindsight. Similarly, an entity that elected the accounting alternative to evaluate goodwill impairment triggering events only as of the end of each reporting period would need to assess whether any additional triggering events occurred during previous reporting periods.

Additionally, some stakeholders (for example, private equity owners, lenders) may prefer that an entity not elect private company alternatives even when it is not expected to meet the definition of a public business entity in the near future. We recommend discussing these elections with stakeholders prior to adoption.

5.3 ACCOUNTING ALTERNATIVE: AMORTIZING GOODWILL (PRIVATE COMPANIES AND NOT-FOR-PROFIT ENTITIES)



FASB REFERENCES

ASC 323-10-35-13, ASC 350-20-15-4, ASC 350-20-35-62 through 35-64, and ASC 350-20-35-81 through 35-82

An entity that elects the goodwill amortization accounting alternative can choose to amortize goodwill on a straight-line basis over 10 years without justifying the 10-year life. In other words, an entity can simply default to an amortization period of 10 years. However, if an entity wants to amortize goodwill over a period of less than 10 years, it must demonstrate that a shorter life is more appropriate.

An entity may revise its estimates of the remaining useful life of goodwill if events and circumstances change, but the cumulative amortization period for any amortizable unit of goodwill cannot exceed 10 years. In this case, the entity prospectively amortizes the goodwill's remaining carrying amount on a straight-line basis.

Upon adoption of this accounting alternative, all existing and future goodwill must be amortized. 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 if an entity demonstrates that another useful life is appropriate). Any subsequent additions to goodwill represent separate amortizable units of goodwill and must be assigned a useful life (10 years or less) at the acquisition date.

Key differences between U.S. GAAP and the goodwill amortization accounting alternative for private entities that elect the accounting alternative are summarized in the following table:

U.S. GAAP			GOODWILL AMORTIZATION ACCOUNTING ALTERNATIVE	
	SUMMARY	SECTION	SUMMARY	SECTION
Eligible Entities	All entities	1.2	▶ Private companies (entities that are not public business entities or employee benefit plans) ▶ NFP entities	5.1.1
Amortization	Not allowed	4.1	Amortized on a straight-line basis over a period of 10 years (or less than 10 years, if the entity demonstrates that another useful life is appropriate)	5.1.2
Level for Testing Goodwill Impairment	Reporting unit	4.2.1	Policy election to test impairment at entity-wide level or reporting unit level	5.1.2.1.1
Frequency of Impairment Test	Annually and upon the occurrence of a triggering event	4.2.2	Upon the occurrence of a triggering event	5.1.2.1.2
Measurement of Impairment	Single-step test that compares the fair value of the reporting unit to its carrying amount	4.2.3.2	Single-step test that compares the fair value of the entity (or reporting unit) to its carrying amount	5.1.2.1.3 5.1.2.1.4

U.S. GAAP			GOODWILL AMORTIZATION ACCOUNTING ALTERNATIVE	
	SUMMARY	SECTION	SUMMARY	SECTION
Allocation of Impairment	No requirement to allocate impairment below reporting unit level. However, the impairment must be allocated between Component-1 and Component-2 goodwill and between controlling interests and NCI.	4.2.3.2.3 4.2.3.2.4	Impairment allocated to separate amortizable units of goodwill using either a pro rata allocation based on relative carrying amounts, or another reasonable and rational basis. Additionally, the impairment must be allocated between Component-1 and Component-2 goodwill and between controlling interests and NCI.	5.1.2.1.5 4.2.3.2.3 4.2.3.2.4
Disposal of a Portion of a Reporting Unit That Constitutes a Business	Goodwill allocated based on the relative fair values of the business disposed of and the portion of the reporting unit being retained	3.3.1.1	Goodwill allocated to the disposed business using a reasonable and rational approach	5.1.2.1.6

Election of the goodwill alternative also is available when accounting for basis differences related to equity method investments, although there are some differences with respect to impairment for equity method investments (see Section 3.3.1 of BDO's Blueprint, [Equity Method Investments Under ASC 323](#)).

5.31 Goodwill Impairment Testing (Private Companies and Not-for-Profit Entities)

Entities that elect the goodwill accounting alternative to amortize goodwill are still required to test goodwill for impairment. However, electing this alternative changes several aspects of the goodwill impairment test; most notably, the level at which the impairment test may be performed and the required timing of the test. This accounting alternative also provides guidance for the measurement of impairment.

5.3.1.1 Level for Testing Goodwill Impairment (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 350-20-35-65

Entities that elect to amortize goodwill are allowed to perform the goodwill impairment test at either the reporting unit level (which is consistent with the level at which entities that have not elected to amortize goodwill must perform the test, as discussed in Section 4.2.1) or at the entity level. This is an accounting policy election that is made at the date this accounting alternative is adopted. If an entity elects to test goodwill for impairment at the reporting unit level, it must follow the guidance on determining reporting units and assigning assets (including goodwill) and liabilities to such reporting units (see Section 4.2.3.2.2). If an entity elects to test goodwill for impairment at the entity level, it is not required to determine the entity's reporting units.

5.3.1.2 Frequency of Goodwill Impairment Test (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 350-20-35-3C and ASC 350-20-35-66

Entities that elect to amortize goodwill are not required to perform an annual goodwill impairment test. Instead, goodwill is tested for impairment only if a triggering event occurs that indicates the fair value of the entity (or the reporting unit) may be below its carrying amount. A triggering events evaluation requires an entity to consider all relevant events and circumstances that affect the fair value or the carrying amount of the entity (or reporting unit), including the factors listed in ASC 350-20-35-3C (see Section 4.2.2.2). A triggering events evaluation is consistent with the assessment required for entities that have not elected to amortize goodwill. If an entity determines that there are no triggering events, further testing is unnecessary.

An entity may also elect to test goodwill for impairment only at the end of its reporting period. If that election is made, a goodwill triggering event evaluation is performed only as of the end of each reporting period. Section 5.4 provides guidance on this accounting alternative.

5.3.1.3 Performing the Goodwill Impairment Test (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 350-20-35-3C, ASC 350-20-35-67 through 35-72, and ASC 350-20-35-79

Triggering event(s)

Optional qualitative assessment

Quantitative impairment test

When a triggering event has been identified, the entity has the option of first performing a qualitative assessment to determine if it is more-likely-than-not³³ that the fair value of the entity (or reporting unit) is less than its carrying amount. If the qualitative assessment demonstrates that impairment is unlikely, the quantitative impairment test is not required. Otherwise, the entity must perform the quantitative impairment test.

The qualitative assessment requires an entity to consider all relevant events and circumstances that affect the fair value or carrying amount of the entity (or reporting unit). The qualitative assessment is consistent with the assessment required for entities that have not elected to amortize goodwill (see Section 4.2.3.1). If, after assessing the totality of events and circumstances, an entity determines that it is unlikely that the fair value of the entity (or reporting unit) is less than its carrying amount, further testing is unnecessary. Alternatively, if the likelihood that an impairment exists is greater than 50%, a quantitative test would be required. Chapter 3 of the *AICPA Accounting and Valuation Guide: Testing Goodwill for Impairment* includes a discussion and illustration of the optional qualitative assessment. Although the AICPA guidance is nonauthoritative, it might be useful as an example.

BDO INSIGHT 5-1: A QUALITATIVE ASSESSMENT MAY BE CHALLENGING

If there has been a triggering event, it often may be difficult to qualitatively demonstrate that there has not been an impairment, and it may be easier to perform the quantitative analysis. As such, the accounting guidance does not require entities to perform a qualitative assessment. Instead, an entity can elect to bypass the qualitative assessment and proceed directly to the quantitative calculation that compares the entity's (or reporting unit's) fair value with its carrying amount (including goodwill). A goodwill impairment is recognized if the carrying amount of the entity (or reporting unit) exceeds its fair value.

³³ The phrase "more-likely-than-not" refers to a level of likelihood that is more than 50 percent.



TESTING OTHER ASSETS FOR IMPAIRMENT IF A GOODWILL IMPAIRMENT TRIGGERING EVENT HAS OCCURRED

If there has been a goodwill impairment triggering event, it may also be necessary to test other assets for impairment. If goodwill and another asset (asset group or disposal group) are tested for impairment at the same time, the other asset (asset group) must be tested for impairment before goodwill if the assets are held and used. This is consistent with the order of impairment testing for entities that have not elected to amortize goodwill (see Section 1.4).

BDO's publication, [Accounting and Reporting in Times of Economic Uncertainty](#), provides a summary of other accounting topics that may be relevant to an entity when a triggering event has occurred.

5.3.1.4 Measuring an Impairment (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 350-20-35-73 through 35-76

A goodwill impairment is measured as the excess of the carrying amount of the entity (or reporting unit) over its fair value. The amount of loss is limited to the carrying amount of the goodwill within the entity (or reporting unit).

Carrying amount of the entity (or reporting unit), including goodwill

—

Fair value of the entity (or reporting unit)

=

Impairment (cannot exceed carrying amount of goodwill)

When calculating the potential impairment, deferred income taxes are included in the carrying amount of the entity (or reporting unit), regardless of whether the fair value of the entity (or reporting unit) will be determined by assuming it would be bought or sold in a taxable or nontaxable transaction.

5.3.1.4.1 Entity or Reporting Unit with a Zero or Negative Carrying Amount (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 350-20-50-1A

Section 4.2.3.2.5 provides guidance for entities (or reporting units) with a zero or negative carrying amount.

5.3.1.5 Allocation of Goodwill Impairment (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 350-20-35-64, ASC 350-20-35-72 through 35-73, and ASC 350-20-35-77 through 35-78

Whether the impairment test is performed at the entity level or at the reporting unit level, any impairment must be allocated to the individual amortizable units of goodwill. This is because each amortizable unit of goodwill may have a different remaining amortizable life (for example, because the goodwill was acquired at different times).

If the impairment test is performed at the entity level, the impairment would be allocated to the individual amortizable units of goodwill in the entity.

However, if the impairment test is performed at the reporting unit level, the impairment for a reporting unit would be allocated only to the individual amortizable units of goodwill within that reporting unit. It would not be appropriate to allocate the impairment to other reporting units. This is true even if the excess carrying amount of the reporting unit over its fair value exceeds the goodwill in that reporting unit. The impairment recognized by an entity for each reporting unit is limited to the carrying amount of goodwill in that reporting unit.

A goodwill impairment is allocated to the individual amortizable units of goodwill on a pro rata basis using their relative carrying amounts or using another reasonable and rational basis.

BDO INSIGHT 5-2: PRO RATA ALLOCATION METHOD IS GENERALLY APPROPRIATE

We believe that entities should generally use the pro rata allocation method unless there is clear evidence supporting a specific identification of the impairment to one or more specific amortizable units of goodwill.

As previously discussed, when a goodwill impairment is recognized, the remaining amount after impairment becomes the new basis for the goodwill and thus impairments cannot be subsequently reversed. The goodwill should be amortized over its remaining useful life. An entity may revise its estimates of the remaining useful life of goodwill in connection with a goodwill impairment, if appropriate; however, the cumulative amortization period for any amortizable unit of goodwill cannot exceed 10 years.

5.3.1.6 Allocation of Goodwill Upon Disposal of a Business (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 350-20-40-8 through 40-9 and ASC 350-20-40-3

When a portion of an entity (or reporting unit) that constitutes a business or nonprofit activity is disposed of, the associated goodwill is included in its carrying amount when determining the gain or loss on disposal. The entity must use a reasonable and rational approach to allocate goodwill to the portion of the entity (or reporting unit) to be disposed of.

This is different from the guidance for a disposal of all or a portion of a reporting unit for entities that have not elected to amortize goodwill, which requires entities to allocate goodwill on a relative fair value basis (see Section 3.3.1.1).

BDO INSIGHT 5-3: METHODS FOR ALLOCATING GOODWILL UPON DISPOSAL OF A BUSINESS

For entities that have elected to amortize goodwill, we believe that it would be acceptable to allocate goodwill using a relative fair value basis, but there may also be other reasonable and rational methods, such as an allocation based on relative carrying amounts or on specific identification. Choosing the appropriate allocation method requires professional judgment based on the facts and circumstances.

5.3.1.7 Goodwill Presentation and Disclosure Requirements (Private Companies and Not-for-Profit Entities)

Entities that elect to amortize goodwill must follow the presentation and disclosure guidance noted in the following sections.

5.3.1.7.1 Financial Statement Presentation (Private Companies and Not-for-Profit Entities)**FASB REFERENCES****ASC 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.

ASC 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.

ASC 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.

ASC 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.

5.3.1.7.2 Disclosure Requirements (Private Companies and Not-for-Profit Entities)**FASB REFERENCES****ASC 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.

ASC 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.

ASC 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.*

ASC 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.*

ASC 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.*

ASC 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.

5.3.1.8 Income Tax Considerations Related to the Goodwill Amortization Accounting Alternative (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 805-740-25-1 through 25-9

The goodwill amortization accounting alternative does not provide any incremental or revised guidance for income tax accounting, so entities that elect this accounting alternative must continue to apply the complex income tax accounting requirements related to goodwill in ASC 805-740-25-1 through 25-9. Entities that elect to amortize goodwill must work through these complexities when accounting for goodwill amortization and impairments. Adopting the goodwill amortization accounting alternative may also affect preexisting valuation allowances on deferred tax assets, with any adjustments being considered an indirect effect of a change in accounting principle that is recognized in income tax expense in continuing operations.

5.4 ACCOUNTING ALTERNATIVE: EVALUATION OF TRIGGERING EVENTS FOR GOODWILL IMPAIRMENT (PRIVATE COMPANIES AND NOT-FOR-PROFIT ENTITIES)



FASB REFERENCES

ASC 350-20-15-4A, ASC 350-20-35-83 through 35-85, and ASC 350-20-55-28 through 55-29

ASC 350 provides an accounting alternative that allows entities to identify and assess goodwill triggering events only as of each reporting date (interim or annual) rather than assessing potential triggering events throughout the entire reporting period. Entities that qualify for this accounting alternative may apply it whether they have elected the accounting alternative to amortize goodwill or not.

The FASB provided the following example regarding the application of this accounting alternative:



EXAMPLE 5-1: ILLUSTRATION OF THE ACCOUNTING ALTERNATIVE FOR A GOODWILL IMPAIRMENT TRIGGERING EVENT EVALUATION

(QUOTED FROM ASC 350-20-55-28 THROUGH 55-29)

ASC 350-20-55-28

Entity A adopted the accounting alternative for a goodwill impairment triggering event evaluation and performs a goodwill impairment triggering event evaluation only as of the end of each reporting period. Entity A also adopted the accounting alternative for amortizing goodwill in accordance with paragraph 350-20-05-5 and elected to perform an impairment test for goodwill at the entity level upon the occurrence of a triggering event only. During the second quarter, Entity A lost a significant customer. However, Entity A was able to replace that customer late in the third quarter of the same year, and the entity's operations returned to previously forecasted levels by the annual reporting date.

ASC 350-20-55-29

If Entity A reports only annually, then it would evaluate the facts and circumstances as of the annual reporting date and may conclude that no triggering event exists; therefore, no further

goodwill impairment testing would be necessary. Alternatively, if Entity A reports on both a quarterly basis and an annual basis, then it would evaluate the facts and circumstances as of the end of each quarter and may conclude that the loss of the significant customer represents a goodwill impairment triggering event requiring additional impairment testing as of the end of the second quarter.

This accounting alternative may ease the compliance burden for entities that only report annually, but it may provide limited relief for entities that issue U.S. GAAP-compliant financial information quarterly (for example, to lenders to satisfy debt covenants). This accounting alternative requires the entity to assess triggering events at the end of each reporting period, including interim dates. As such, an entity that reports U.S. GAAP-compliant financial information for interim periods cannot delay its triggering events assessment to the annual reporting date; it must evaluate triggering dates at the end of the interim reporting period.

BDO INSIGHT 5-4: REPORTING U.S. GAAP COMPLIANT FINANCIAL INFORMATION OTHER THAN FINANCIAL STATEMENTS

While the FASB did not provide additional guidance on what constitutes interim reporting, in BC28 of ASU 2021-03, *Intangibles – Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*, it noted that many private companies provide “some level of financial information more frequently than annually that indicates that it complies with the recognition and measurement principles of GAAP.”

Therefore, we believe that providing financial statements or other financial information that is compliant with U.S. GAAP is considered interim reporting for the purpose of this accounting alternative, regardless of whether the financial statements or financial information is filed with a regulatory agency. For example, if an entity elects this accounting alternative and provides interim financial information such as EBITDA measures or other financial metrics to a lender or other investor (for example, to lenders to satisfy debt covenants) that purports to be in compliance with U.S. GAAP, it must evaluate triggering events as of the end of each interim reporting period.

Examples 5-2 and 5-3 illustrate the application of the triggering event accounting alternative.

EXAMPLE 5-2: INTERIM TRIGGERING EVENTS FOR PRIVATE COMPANY THAT ELECTED THE TRIGGERING EVENT ALTERNATIVE

FACTS

- ▶ As of June 30, 2020, Entity A has experienced a decline in bookings and an increase in cancellations because of travel restrictions resulting from the COVID-19 pandemic.
- ▶ There are also new regulations and restrictions on travel in areas where Entity A usually plans and books vacations and excursions for its customers.
- ▶ Over the past six months, Entity A has experienced a significant decline in actual versus planned revenue.
- ▶ Entity A operates in a single segment, which also represents its only reporting unit. Before the pandemic, Entity A performed a fair value analysis to determine the value of stock options granted to employees. Based on that analysis, Entity A's fair value was approximately 10% higher than its carrying amount.
- ▶ Entity A is a private company and has elected the private company alternative to perform goodwill impairment triggering event evaluations only as of the end of each reporting period.
- ▶ Entity A must provide U.S. GAAP-compliant financial statements to its bank semiannually on June 30 and December 31.
- ▶ Entity A has not elected to amortize its goodwill, and it performs an annual impairment assessment of its goodwill as of the beginning of the fourth quarter.

CONCLUSION

Entity A must assess whether a triggering event has occurred as of June 30.

ANALYSIS

Because Entity A must provide U.S. GAAP-compliant financial statements to its bank semiannually, it must perform a triggering events evaluation on the interim reporting date (June 30). If a triggering event has occurred as of that date, Entity A would need to perform a goodwill impairment assessment because it is more likely than not that the carrying amount of the reporting unit is greater than its fair value.

EXAMPLE 5-3: INTERIM TRIGGERING EVENTS FOR PRIVATE COMPANY THAT ELECTED THE TRIGGERING EVENT ALTERNATIVE**FACTS**

Assume the same facts as in Example 5-2, except that Entity A is not required to provide U.S. GAAP-compliant financial statements to its bank semiannually on June 30 and December 31; instead, it must provide to its lender quarterly financial information that consists of EBITDA for the three-month period, calculated using amounts that were determined in accordance with U.S. GAAP. It must also provide an interest coverage ratio calculated as defined in the debt agreement, which excludes specific nonrecurring items, including any goodwill impairments.

CONCLUSION

Entity A must assess whether a triggering event has occurred as of June 30.

ANALYSIS

Entity A is not required to provide financial statements to its lender on an interim basis, but it is required to provide two metrics: EBITDA and an interest coverage ratio. Because EBITDA in this example is calculated using amounts that were determined in compliance with U.S. GAAP, and thus any goodwill impairment would affect the earnings number (for example, net income) used to calculate the metric, the presentation of EBITDA on a quarterly basis represents interim financial reporting. Therefore, Entity A must assess whether a triggering event has occurred as of June 30.

We note that the interest coverage ratio is not calculated in compliance with U.S. GAAP. Notably, any goodwill impairments would be excluded. Therefore, if the only financial information that Entity A provided to its lender on an interim basis were the interest coverage ratio, and Entity A elected the private company alternative to only assess triggering event as of the reporting date, it would not have to assess whether a triggering event has occurred as of June 30 because it would not be providing interim financial statements or other financial information that is compliant U.S. GAAP (for the purpose of this accounting alternative). Instead, Entity A would assess whether a triggering event has occurred only as of the end of its annual reporting period (if different than its annual impairment testing date).

This accounting alternative also does not change the timing of the required triggering events assessment for long-lived assets. As such, entities that adopt this accounting alternative may still need to assess potential triggering events for other assets during the reporting period. Long-lived asset impairment triggering events may affect goodwill. In those situations, an entity must consider whether the impairment triggering events are still present as of the next goodwill impairment testing date. This accounting alternative also does not change the requirement to test goodwill in other situations (for example, upon disposal of a portion of a reporting unit or when goodwill is included in a held-for-sale disposal group).

5.4.1 Disclosure Requirements (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 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.

5.5 ACCOUNTING ALTERNATIVE: INTANGIBLE ASSETS (PRIVATE COMPANIES AND NOT-FOR-PROFIT ENTITIES)



FASB REFERENCES

ASC 805-20-15-1A through 15-4, ASC 805-20-25-30, and ASC 805-20-65-2

A private company or NFP entity that applies the acquisition method for a business combination (or an NFP acquisition) may elect not to recognize specific intangible assets separately from goodwill. This election is also available when accounting for basis differences related to equity method investments (see Section 3.3.1 of BDO's Blueprint, [Equity Method Investments Under ASC 323](#)) and for entities that apply fresh-start reporting upon a reorganization when emerging from bankruptcy in accordance with ASC 852.

If an entity elects this accounting alternative, all noncompete agreements are subsumed into goodwill. Further, customer-related intangible assets that are **not** capable of being sold or licensed independently from other assets of a business also are subsumed into goodwill. Conversely, customer-related intangible assets cannot be subsumed into goodwill and must be recognized separately if they are capable of being sold or licensed independently from other assets of a business (see Section 5.5.1). An acquirer also must continue to identify and measure all other intangible assets separately from goodwill.

Once the alternative is adopted, an entity would apply it to all future transactions within the scope of this guidance, including business combinations (and NFP acquisitions) and eligible equity method investments. Entities that adopt this guidance would not retrospectively adjust the accounting for any previous transactions. In other words, existing customer-related intangible assets and noncompete agreements should not be subsumed into goodwill upon the adoption of this accounting alternative, but they would continue to be accounted for in accordance with the guidance in ASC 350.

An entity that elects the intangible assets accounting alternative also must adopt the accounting alternative for amortizing goodwill to prevent subsuming finite-lived intangible assets into indefinite-lived goodwill. However, an entity that elects either or both goodwill accounting alternatives discussed in Section 5.1 is not required to elect the intangible assets accounting alternative.

5.5.1 Customer-Related Intangible Assets (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 805-20-25-31

Many acquired customer contracts and relationships cannot be sold or licensed independently from other assets of the acquired business. As such, an entity that adopts this accounting alternative would generally recognize fewer customer-related intangible assets separately from goodwill. Customer relationship assets that are nontransferable would be subsumed into goodwill. Therefore, an entity that adopts this accounting alternative must consider contractual limitations on transfer. For example, assets that cannot be transferred or sold without customer approval would be eligible for the accounting alternative.

BDO INSIGHT 5-5: CONTRACTS WITHIN CERTAIN INDUSTRIES THAT CANNOT BE SOLD

Intangible assets related to contracts with the U.S. government and contracts in the healthcare industry would generally be eligible for the private company alternative as such intangible assets typically cannot be sold or licensed independently without customer approval.

However, the guidance provides several examples of customer-related intangible assets that can be sold or licensed independently from the other assets of the business and would continue to be recognized and measured separately from goodwill, including:

- ▶ Mortgage servicing rights
- ▶ Commodity supply contracts
- ▶ Core deposits
- ▶ Customer information that can be bought and sold (for example, names and contact information)

Entities that adopt the intangible assets accounting alternative must determine which assets can be sold or licensed independently and thus must be recognized separately. Sometimes companies do not distinguish between customer relationships and customer lists related to the same group of customers when measuring their acquired intangible assets. However, entities that adopt this accounting alternative must separately recognize and measure the intangible asset related to customer lists (which can be sold or licensed) but must subsume the asset related to customer relationships (which cannot be sold independently from other assets) into goodwill.

Example 5-4 illustrates the intangible assets accounting alternative.

EXAMPLE 5-4: APPLYING THE INTANGIBLE ASSETS ACCOUNTING ALTERNATIVE

FACTS

- ▶ Private Company A acquired Company B. The acquired business includes several identifiable intangible assets, including a trade name, technology, customer lists, and customer relationships.
- ▶ Customer lists include information in Jurisdictions A and Y about customer names, contact information, and ordering history. In Jurisdiction X, such customer information cannot be sold or licensed without the customers' consent. In Jurisdiction Y, there are no restrictions on transferring the customer information.
- ▶ Private Company A has elected to apply the intangible assets accounting alternative.

CONCLUSION

Private Company A recognizes separately identifiable intangible assets as follows:

- ▶ Trade name

- ▶ Technology
- ▶ Customer lists in Jurisdiction Y that can be independently sold or exchanged

The following intangible assets are not separately recognized, but are subsumed into goodwill:

- ▶ Customer lists in Jurisdiction X that cannot be sold or licensed because of transfer restrictions
- ▶ Customer relationships

ANALYSIS

Private Company A must separately recognize the trade name and technology because they are not within the scope of the intangible assets accounting alternative. It also must separately recognize and measure Company B's customer lists in Jurisdiction Y because they can be independently sold or exchanged. The customer lists in Jurisdiction X would not be recognized separately but would be subsumed into goodwill because they cannot be sold or licensed (because of transfer restrictions).

If Private Company A had not elected the intangible assets accounting alternative, it would have recognized an intangible asset for all customer lists (whether or not transferable), as well as a customer relationship intangible asset.

In some cases, a customer contract may include terms that are favorable or unfavorable relative to the market (see Section 4.4.2.7.5.4 of BDO's Blueprint, [Business Combinations Under ASC 805](#)). Intangible assets related to the favorable (above-market) component of a customer contract would be subsumed into goodwill if the underlying contract is not capable of being sold or licensed independently. However, the below-market components of any unfavorable contracts cannot be subsumed into goodwill because the below-market component represents a liability, and the scope of the intangible assets accounting alternative includes only items that would otherwise be recorded as an intangible asset, as noted in BC20 of ASU 2014-18.³⁴

5.5.2 Noncompete Agreements (Private Companies and Not-for-Profit Entities)

The accounting alternative requires that all noncompete agreements acquired as part of a business combination (or NFP acquisition) to be subsumed into goodwill. However, any noncompete agreements that are accounted for as transactions separate from the business combination would not be eligible for this accounting alternative³⁵ (see Section 4.4.2.7.5.1.3 of BDO's Blueprint, [Business Combinations Under ASC 805](#)).

An acquiree's preexisting noncompete arrangements that are assumed by the acquirer would typically meet the contractual-legal criterion (see Section 4.4.2.7.5.1 of BDO's Blueprint, [Business Combinations Under ASC 805](#)) for recognition as intangible assets in a business combination (or NFP acquisition), so they would be in the scope of this accounting alternative and would be subsumed into goodwill.

Alternatively, an acquirer may enter noncompete agreements with the selling shareholders in connection with a business combination (or NFP acquisition). Because noncompete agreements with selling shareholders are primarily for the acquirer's benefit, they are often accounted for as transactions separate from a business combination and would not be eligible for the intangible assets accounting alternative.

However, in BC19 of ASU 2014-18, the FASB acknowledged that there may be diversity in views regarding whether noncompete agreements should be accounted for as part of the business combination or as a separate transaction, but that such diversity has not resulted in significantly different outcomes. If an entity concludes that a noncompete agreement is accounted for as part of the business combination, it would be subsumed into goodwill under the intangible assets accounting alternative.

³⁴ *Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination, a consensus of the Private Company Council*

³⁵ ASU 2014-18, BC19

5.5.3 Contract Assets and Leases (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 805-20-25-32 through 25-33

Contract assets as defined in ASC 606, *Revenue from Contracts with Customers*, and leases are not customer-related intangible assets for the intangible assets accounting alternative, so they must be recognized separately in a business combination (or NFP acquisition) and cannot be subsumed into goodwill.

5.5.4 Disclosures (Private Companies and Not-for-Profit Entities)



FASB REFERENCES

ASC 805-30-50-1(a)

The intangible assets accounting alternative does not introduce any incremental disclosure requirements, but entities that adopt it must comply with the disclosure requirements in ASC 805. Such disclosures include a qualitative description of intangible assets that do not qualify for separate recognition; therefore, the nature of all acquired intangible assets should be disclosed, even if the intangible assets have been subsumed into goodwill (see Sections 8.6.5.3 and 8.6.5.6 of BDO's Blueprint, [Business Combinations Under ASC 805](#)).

Chapter 6: Presentation and Disclosures



6.1 OVERVIEW

ASC 350 and ASC 360 provide guidance for presentation and disclosures for assets held and used, assets held for sale, and assets to be disposed of other than by sale. These requirements are designed to provide financial statement users with meaningful information to assist them in assessing the status of the assets and potential future cash flows. This chapter discusses the presentation and disclosure requirements for entities that have not elected (or do not qualify for) the private company accounting alternatives for goodwill and intangible assets. For discussion of those alternatives, including disclosure requirements, see Chapter 5.

6.2 ASSETS HELD AND USED: PRESENTATION AND DISCLOSURES

6.2.1 Balance Sheet: Intangible Assets



FASB REFERENCES

ASC 350-30-45-1

ASC 350 requires intangible assets to be presented separately from goodwill and other assets on the balance sheet. Intangible assets may be aggregated and presented as a single line item in the balance sheet or may be presented as multiple line items, such as by asset class. If intangible assets are not presented by asset class on the balance sheet, an entity must disclose the asset classes (see Section 6.2.1.2).

For public business entities, Rule 5-02 of Regulation S-X requires that each class of intangible assets that represents more than 5% of the total assets must be separately presented, and that significant additions or deletions must be explained.

BDO INSIGHT 6-1: INTANGIBLE ASSETS ARE TYPICALLY CLASSIFIED AS NONCURRENT

Because intangible assets typically benefit more than one period, they are classified as noncurrent on the balance sheet. In our experience, intangible assets are typically presented as noncurrent in their entirety; the expected amortization for the coming year is typically not presented as a current asset.

For guidance on the balance sheet presentation of intangible assets that are held for sale, see Section 6.3.1.

6.2.1.1 Intangible Assets: Disclosures in the Acquisition Period



FASB REFERENCES

ASC 350-30-50-1

When intangible assets are acquired in a business combination, asset acquisition, or joint venture formation, ASC 350 requires specific disclosures (see Section 8.6.5.3 of BDO's Blueprint, [Business Combinations Under ASC 805](#)). These disclosures are intended to provide information about the nature of the intangible assets and the periods in which they are expected to benefit the acquirer.

6.2.1.2 Intangible Assets: Ongoing Disclosures



FASB REFERENCES

ASC 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.

ASC 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.

ASC 350 requires the disclosures specified above for each period that a balance sheet is presented. In addition, if an entity changes the estimated useful life of an intangible asset or changes its expected likelihood of renewal or extension, it must disclose the change.

Further, entities that have adopted ASU 2024-03, *Income Statement – Reporting Comprehensive Income – Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expense* are subject to additional requirements for amortization and impairments (see Section 6.2.8). These disclosures are intended to provide information about the nature and status of the intangible assets, as well as the amortization that has been recognized and the amounts expected to be recognized in the future.

Example 6-1 illustrates intangible assets disclosures required by ASC 350-30-50-3.

EXAMPLE 6-1 (ADAPTED FROM ASC 350-30-55-40): INTANGIBLE ASSETS DISCLOSURES

FACTS

Entity A did not incur costs to renew or extend the term of acquired intangible assets during the period ended December 31, 20X3.

CONCLUSION

Entity A would provide the following disclosures for intangible assets in its December 31, 20X3, financial statements.³⁶

(In thousands)	As of December 31, 20X3	
	Gross Carrying Amount	Accumulated Amortization
Amortized Intangible Assets		
Trademark	\$ 1,078	\$ (66)
Unpatented Technology	475	(380)
Other	90	(30)
Total	\$ 1,643	\$ (476)
Indefinite-Lived Intangible Assets		
Broadcast Licenses	\$ 1,400	
Trademark	600	
Total	\$ 2,000	
Amortization		
For year ended 12/31/X3	\$ 319	
Estimated Future Amortization		
For Year Ended 12/31/X4	\$ 199	
For Year Ended 12/31/X5	74	
For Year Ended 12/31/X6	74	
For Year Ended 12/31/X7	64	
For Year Ended 12/31/X8	54	
For Years Thereafter	702	
Total Amortization	\$ 1,167	

Chapter 5 discusses the presentation and disclosure requirements for entities that have elected one or more of the private company accounting alternatives for goodwill and intangible assets.

6.2.2 Balance Sheet: Property, Plant, and Equipment

ASC 360 does not provide specific balance sheet presentation requirements for PP&E.

³⁶ For entities that have adopted ASU 2024-03, there are also specified disclosures for amortization and impairment (see Section 6.2.8).

BDO INSIGHT 6-2: INTANGIBLE ASSETS ARE TYPICALLY CLASSIFIED AS NONCURRENT

Because PP&E typically benefits more than one period, it is classified as noncurrent on the balance sheet. In our experience, PP&E is typically presented as noncurrent in its entirety; the expected depreciation for the coming year is typically not presented as a current asset.

For guidance on the balance sheet presentation of PP&E assets that are classified as **held for sale**, see Section 6.3.1.

6.2.2.1 Property, Plant, and Equipment: Disclosures in the Period of Acquisition or Joint Venture Formation**FASB REFERENCES**

ASC 805-20-50-1

PP&E that is acquired through a business combination, NFP acquisition, or joint venture is subject to the guidance of ASC 805, which requires the entity to disclose the amounts recognized as of the acquisition date (or joint venture formation date) for each major class of assets acquired (see Section 8.6.5 and Section D.8 of BDO's Blueprint, [Business Combinations Under ASC 805](#)). These disclosures are intended to provide information about the nature of the assets acquired.

There are no specific disclosure requirements for PP&E acquired in an asset acquisition that does not meet the definition of a business (see Section C.6 of BDO's Blueprint, [Business Combinations Under ASC 805](#)). However, an acquirer is not precluded from providing disclosures about assets acquired.

6.2.2.2 Property, Plant, and Equipment: Ongoing Disclosures**FASB REFERENCES**

ASC 360-10-50-1

Because of the significant effects on financial position and results of operations of the depreciation method or methods used, all of the following disclosures shall be made in the financial statements or in notes thereto:

- a. Depreciation expense for the period*
- b. Balances of major classes of depreciable assets, by nature or function, at the balance sheet date*
- c. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance sheet date*
- d. A general description of the method or methods used in computing depreciation with respect to major classes of depreciable assets.*

ASC 360 provides the above requirements for ongoing disclosures for PP&E that is classified as held and used.

Entities that have adopted ASU 2024-03 are subject to additional disclosure requirements for depreciation and impairments (see Section 6.2.8).

For public business entities, Rule 5-02 of Regulation S-X requires the registrant to state the basis it used to determine the amounts of PP&E. Additionally, it requires the registrant to either present accumulated depreciation, depletion, and amortization of PP&E separately on the balance sheet or to disclose it in a note.

For guidance on the balance sheet presentation for PP&E that is classified as held for sale, see Section 6.3.1.

6.2.3 Balance Sheet: Goodwill



FASB REFERENCES

ASC 350-20-45-1

ASC 350 requires goodwill to be presented separately from other assets on the balance sheet. For additional guidance on the balance sheet presentation for goodwill that is classified as held for sale, see Section 6.3.1.

6.2.3.1 Goodwill: Disclosures in Acquisition or Joint Venture Formation Period

Goodwill that is acquired through a business combination, NFP acquisition, or joint venture is subject to the guidance of ASC 805, which requires the entity to disclose the amounts recognized as of the acquisition date (or joint venture formation date) for each major class of assets acquired. Additionally, ASC 805 requires specific disclosures for goodwill in the acquisition period or joint venture formation period (see Sections 8.6.5 and 8.6.5.6 and D.8 of BDO's Blueprint, [Business Combinations Under ASC 805](#)).

6.2.3.2 Goodwill: Ongoing Disclosures for Each Period Presented



FASB REFERENCES

ASC 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.

ASC 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.

ASC 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)*

ASC 350 requires an entity to provide a rollforward of changes in goodwill for each period presented. Additionally, entities that have reporting units with zero or negative carrying amounts must disclose those reporting units and the goodwill allocated to them each period (see Section 4.2.3.2.5). An entity must also describe the amount of any impairment, the circumstances that led to the impairment, and the method of determining the fair value of the reporting unit.

Entities that have adopted ASU 2024-03 are subject to additional disclosure requirements for impairments (see Section 6.2.8). For guidance on disclosures for goodwill that is classified as held for sale as part of a disposal group, see Section 6.3.1.1.

Example 6-2 illustrates goodwill disclosures required by ASC 350-20-50-1 through 50-2.

EXAMPLE 6-2 (ADAPTED FROM ASC 350-20-55-24): GOODWILL DISCLOSURES**FACTS**

- ▶ Entity A has:
 - Three reporting units with goodwill: Software, Electronics, and Communications
 - Two reportable segments: Technology and Communications.
- ▶ The Electronics reporting unit has a negative carrying amount.

CONCLUSION

Entity A provides the following disclosures in its December 31, 20X3 financial statements relating to goodwill:

Note C: Goodwill

The changes in the carrying amount of goodwill for the year ended December 31, 20X3, are as follows:

(In Thousands)	Technology Segment	Communications Segment	Total
Balance as of January 1, 20X3			
Goodwill	\$ 1,413	\$ 1,104	\$ 2,517
Accumulated Impairments	—	(200)	(200)
	1,413	904	2,317
Goodwill Acquired During Year	189	115	304
Impairments	—	(46)	(46)
Goodwill Written-off Related to Sale of Business Unit	(484)	—	(484)
Balance as of December 31, 20X3			
Goodwill	1,118	1,219	2,337
Accumulated Impairments	—	(246)	(246)
Total	\$ 1,118	\$ 973	\$ 2,091

The Communications segment is tested for impairment in the third quarter, after the annual forecasting process. Due to an increase in competition in the Texas and Louisiana cable industry, operating profits and cash flows were lower than expected in the fourth quarter of 20X2 and the first and second quarters of 20X3. Based on that trend, the earnings forecast for the next five years was revised. In September 20X3, a goodwill impairment of \$46 was recognized in the Communications reporting unit. The fair value of that reporting unit was estimated using the expected present value of future cash flows.

The Electronics reporting unit, which has \$498 of goodwill, had a negative carrying amount on December 31, 20X3, and 20X2. This reporting unit is part of the Technology segment.

For discussion about the presentation and disclosure requirements for entities that have elected one or more of the private company accounting alternatives for goodwill and intangible assets, see Chapter 5.

6.2.4 Income Statement: Intangible Assets



FASB REFERENCES

ASC 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.

Amortization and impairments of intangible assets must be presented within the income statement as income from continuing operations. Amortization may be presented separately or may be included in the functional line items to which it relates (for example, cost of sales, selling expenses).

BDO INSIGHT 6-3: PRESENTATION OF AMORTIZATION AND IMPAIRMENTS

If an entity presents an income statement classified by function, we believe that amortization and impairments should also be classified based on the function of the intangible asset. For example, if an intangible asset is used to produce inventory, its amortization and impairment should be classified within cost of sales.

Additionally, we believe that impairments of indefinite-lived intangible assets used in an entity's operations must be included in operating income if such a subtotal is presented, by analogy to ASC 360-10-45-4 for impairments of finite-lived intangible assets and other long-lived assets (see Section 6.2.5.1).

Entities that have adopted ASU 2024-03 are subject to additional disclosure requirements for amortization and impairments (see Section 6.2.8).

6.2.4.1 Intangible Assets: Impairment Disclosures**FASB REFERENCES****ASC 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.*

See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

ASC 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.

If an entity recognizes an impairment of an intangible asset, it must disclose the facts and circumstances leading to the impairment, the judgments involved, and the method for determining the fair value. Additionally, the entity must disclose the amount of the loss and where the impairment has been presented in the income statement (including which segment, if applicable). The entity must also provide the disclosures required by ASC 820-10-50 for non-recurring fair value measurements.

If an impairment is not recognized, an entity must consider whether early warning disclosures must be made (see Section 6.2.7).

Entities that have adopted ASU 2024-03 are subject to additional disclosure requirements for amortization and impairments (see Section 6.2.8).

6.2.5 Income Statement: Long-Lived Assets



FASB REFERENCES

ASC 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.

ASC 360-10-50-1

Because of the significant effects on financial position and results of operations of the depreciation method or methods used, ... the following disclosures shall be made in the financial statements or in notes thereto:

- a. Depreciation expense for the period ...*

Amortization and impairments of intangible assets must be presented within the income statement as income from continuing operations. Amortization may be presented separately or may be included in the functional line items to which it relates (for example, cost of sales, selling expenses). Depreciation must be separately presented in the financial statements or disclosed for each period an income statement is presented.

For public business entities, the SEC staff has provided the following guidance:



SEC STAFF GUIDANCE

Excerpt from [SAB Topic 11.B Depreciation and Depletion Excluded From Cost of Sales](#) (reprinted in ASC 220-10-S99-8)

Facts: *Company B excludes depreciation and depletion from cost of sales in its income statement.*

Question: *How should this exclusion be disclosed?*

Interpretive Response: *If cost of sales or operating expenses exclude charges for depreciation, depletion and amortization of property, plant and equipment, the description of the line item should read somewhat as follows: "Cost of goods sold (exclusive of items shown separately below)" or "Cost of goods sold (exclusive of depreciation shown separately below)." To avoid placing undue emphasis on "cash flow," depreciation, depletion and amortization should not be positioned in the income statement in a manner which results in reporting a figure for income before depreciation.*

Entities that have adopted ASU 2024-03 are subject to additional disclosure requirements for depreciation, amortization, and impairments (see Section 6.2.8).

6.2.5.1 Long-Lived Assets (Asset Groups): Impairment Disclosures



FASB REFERENCES

ASC 360-10-45-4

An impairment loss recognized for a long-lived asset (asset group) to be held and used shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amount of that loss.

ASC 360-10-50-2

All of the following information shall be disclosed in the notes to financial statements that include the period in which an impairment loss is recognized:

- a. A description of the impaired long-lived asset (asset group) and the facts and circumstances leading to the impairment*
- b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement or the statement of activities that includes that loss*
- c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)*
- d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under Topic 280.*

See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

An impairment recognized for long-lived assets that are classified as held and used must be included in the income statement as income from continuing operations before income taxes. If an entity presents a subtotal for operating income (loss), the impairment must be included in that subtotal.

The impairment may be presented separately in the income statement or disclosed in a note. If it is not presented separately on the income statement, the entity must disclose the amount of the impairment and the income statement caption and segment (if applicable) that includes the loss. In addition, the entity must disclose the facts and circumstances leading to the impairment, the judgments involved, and the method for determining fair value. The entity must also provide the disclosures required by ASC 820-10-50 for non-recurring fair value measurements.

If an impairment is not recognized, an entity must consider whether early warning disclosures must be made (see Section 6.2.7). Entities that have adopted ASU 2024-03 are subject to additional disclosure requirements for impairments (see Section 6.2.8).

6.2.5.2 Long-Lived Assets (Asset Groups): Disposal Gains and Losses



FASB REFERENCES

ASC 360-10-45-5 and ASC 360-10-S99-1

A gain or loss from the sale of a long-lived asset or disposal group that is not a discontinued operation must be included in the income statement as income from continuing operations before income taxes. If an entity presents a subtotal for operating income (loss), disposal gains and losses must be included in that subtotal. Disposal gains and losses generally cannot be included in either depreciation or amortization, as discussed in SAB Topic 5.B.



SEC STAFF GUIDANCE

Excerpt from [SAB Topic 5.B, Gain or Loss From Disposition of Equipment](#) (reprinted in ASC 360-10-S99-1)

Facts: Company A has adopted the policy of treating gains and losses from disposition of revenue producing equipment as adjustments to the current year's provision for depreciation. Company B reflects such gains and losses as a separate item in the statement of income.

Question: Does the staff have any views as to which method is preferable?

Interpretive Response: Gains and losses resulting from the disposition of revenue producing equipment should not be treated as adjustments to the provision for depreciation in the year of disposition, but should be shown as a separate item in the statement of income.

If such equipment is depreciated on the basis of group of composite accounts for fleets of like vehicles, gains (or losses) may be charged (or credited) to accumulated depreciation with the result that depreciation is adjusted over a period of years on an average basis. It should be noted that the latter treatment would not be appropriate for (1) an enterprise (such as an airline) which replaces its fleet on an episodic rather than a continuing basis or (2) an enterprise (such as a car leasing company) where equipment is sold after limited use so that the equipment on hand is both fairly new and carried at amounts closely related to current acquisition cost.

Section 6.3.1.1 discusses additional disclosures when an asset has been disposed of or is held for sale.

BDO INSIGHT 6-4: CONSIDER WHETHER OTHER U.S. GAAP ALSO APPLIES TO SALES AND DISPOSALS

In determining the appropriate presentation and disclosure guidance for disposals of long-lived assets, the entity also may need to consider the following guidance:

- ▶ **ASC 610-20:** For derecognition of long-lived assets that do not meet the definition of a business (see Appendix A of BDO's Blueprint, [Revenue Recognition Under ASC 606](#))
- ▶ **ASC 842:** For sale-lease back transactions (see BDO's Blueprint, [Accounting for Leases Under ASC 842](#))
- ▶ **ASC 810:** For derecognition of a business or a nonprofit activity, or of a subsidiary when other U.S. GAAP does not apply (see BDO's Blueprint, [Control and Consolidation Under ASC 810](#)).

6.2.6 Income Statement: Goodwill

6.2.6.1 Goodwill: Impairment Disclosures



FASB REFERENCES

ASC 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.

ASC 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.

ASC 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)*

ASC 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.

Total goodwill impairments must be presented as a separate line in the income statement as part of income from continuing operations unless a goodwill impairment is associated with a discontinued operation. If a goodwill impairment is associated with a discontinued operation, it must be included within the results of discontinued operations on a net-of-tax basis. The entity must disclose the facts and circumstances leading to the impairment, the amount of the impairment, and the method used to determine the fair value of the reporting unit. The entity must also provide most of the disclosures for non-recurring fair value measurements that are required by ASC 820-10-50. However, disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy are not required for fair value measurements for goodwill after its initial recognition in a business combination.

BDO INSIGHT 6-5: PRESENTATION OF AMORTIZATION AND IMPAIRMENTS

We believe that impairments of goodwill must be included in operating income if such a subtotal is presented, by analogy to the requirement in ASC 360-10-45-4 for impairments of long-lived assets (see Section 6.2.5).

Entities that have adopted ASU 2024-03 are subject to additional disclosure requirements for impairments (see Section 6.2.8).

For discussion about the presentation and disclosure requirements for entities that have elected one or more of the private company accounting alternatives for goodwill and intangible assets, see Chapter 5.

6.2.7 Impairments: Early Warning Disclosures



FASB REFERENCES

ASC 275-10-50-8

Disclosure regarding an estimate shall be made when known information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates that both of the following criteria are met:

- a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.*
- b. The effect of the change would be material to the financial statements.*

ASC 350 and ASC 360 do not specifically require an entity to provide early warning disclosures if an impairment has not been recorded in the current period but might be triggered in the near term. However, ASC 275, *Risks and Uncertainties*, requires disclosures when it is at least reasonably possible that an estimate may change in the near term and the effect of that change would be material to the financial statements.

BDO INSIGHT 6-6: SEC STAFF COMMENTS ON LACK OF EARLY WARNING DISCLOSURES ON IMPAIRMENTS

The SEC staff frequently questions registrants about the timing and adequacy of impairment disclosures. In such cases, the SEC staff often asks registrants to explain why an impairment was recognized in the current period and not earlier, and what specific events or changes in circumstances triggered the impairment assessment. The SEC staff may also question the adequacy of the early warning disclosures required by ASC 275. Management should have processes and controls for identifying impairments and for determining the appropriate disclosures about the possibility of future impairments.

Example 6-3 illustrates a scenario in which an entity discloses uncertainty regarding a potential future impairment.

EXAMPLE 6-3 (ADAPTED FROM ASC 360-10-55-50 THROUGH 55-54): EARLY WARNING DISCLOSURES

FACTS

- ▶ Offshore Industries is a manufacturer of offshore drilling rigs and platforms, which requires significant specialized equipment.
- ▶ The entity depreciates its specialized equipment based on its original estimate of the remaining useful lives of the equipment using the units-of-production method, since it believes that the exhaustion of usefulness of these specialized assets relates more to their use than to the passage of time.
- ▶ As a result of a decline in the price of oil, the demand for its products and services has fallen dramatically in the past two years, resulting in a significant underutilization of its manufacturing capacity.
- ▶ The entity monitors the policies of its major competitors and is aware that several have reported large write-downs of similar assets.
- ▶ The entity reevaluates its estimates of the remaining useful lives of its assets in light of current conditions and concludes that no change in the depreciation method or estimated useful lives is necessary.
- ▶ The entity performs a recoverability test and concludes that the assets are recoverable (see Section 3.2.3.1). While the entity believes that it is reasonably possible that its estimate of the recoverability of those assets could change during the next year, it currently believes it is more likely that industry conditions will improve and that no write-down will be required next year.

CONCLUSION

The entity provides the following disclosure:

- ▶ Offshore's policy is to depreciate its specialized manufacturing equipment (which has a net book value of \$25 million on December 31, 19X7) over its remaining useful life using the units-of-production method and to periodically evaluate the remaining life and recoverability of such equipment. Given the excess capacity in the industry, it is reasonably possible that the entity's estimate that it will recover the carrying amount of this equipment from future operations will change in the near term.

6.2.7.1 Incremental Disclosures for Public Business Entities

In addition to the disclosures required by U.S. GAAP, Item 303 of Regulation S-K requires that management's discussion and analysis (MD&A) provide information relevant to an assessment of the registrant's financial condition and results of operations. The discussion must include a discussion of events and uncertainties that have had, **or are reasonably likely to have**, a material impact on the registrant's financial condition or results of operations. As such, an entity must provide early warning disclosures to alert investors of the potential for impairment in the near future.

In addition, the SEC has provided the following guidance in its Financial Reporting Manual (FRM):



SEC STAFF GUIDANCE

[SEC Division of Corporation Finance: Financial Reporting Manual](#)

9510 Goodwill Impairment

9510.1 Registrants should provide disclosure about critical accounting estimates pursuant to S-K 303(b)(3). Disclosure is appropriate when:

- a. The nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and*
- b. The impact of the estimates and assumptions on financial condition or operating performance is material.*

9510.2 Estimates related to goodwill impairment testing are commonly considered critical accounting estimates by registrants. As a result, the staff has developed the guidance below regarding these disclosures with the objective of ensuring that investors are provided with information that allows for an assessment of the probability of a future material impairment charge. Registrants should consider providing the disclosures outlined in Section 9510.3 in order to comply with SK 303(b)(3).

9510.3 Registrants should consider providing the following disclosures for each reporting unit that is at risk of failing the quantitative impairment test (defined in ASC 350):

- a. The percentage by which fair value exceeded carrying value as of the date of the most recent test;*
- b. The amount of goodwill allocated to the reporting unit;*
- c. A description of the methods and key assumptions used, how the key assumptions were determined, and how the key assumptions have changed over a relevant period;*
- d. A discussion of the degree of uncertainty associated with the key assumptions. The discussion regarding uncertainty should provide specifics to the extent possible*

(e.g., the valuation model assumes recovery from a business downturn within a defined period of time); and

- e. A description of potential events and/or changes in circumstances that could reasonably be expected to negatively affect the key assumptions.

Note: 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 carrying value as of the date of the most recent test. Whether or not the fair value was “substantially” in excess of carrying value is a judgment based on the facts and circumstances including, but not limited to, the level of uncertainty associated with the methods and assumptions used for impairment testing.

9510.4 A registrant need not provide these disclosures if the registrant asserts and discloses that material goodwill does not exist at reporting units that are at risk of failing step one of the quantitative impairment test or that no reporting units are at risk. Registrants should consider disclosing the supporting rationale if material goodwill is allocated to a reporting unit that is at risk, but disclosure is deemed unnecessary.

6.2.8 Disaggregated Income Statement Expense Disclosures: Amortization, Depreciation, and Impairments



FASB REFERENCES

ASC 220-40-50-6

For interim and annual reporting periods, an entity shall disaggregate, in a tabular format disclosure in the notes to financial statements, all relevant expense captions (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions) presented on the face of the income statement in continuing operations into the following expense categories: ...

- c. *Depreciation (for separate requirement to disclose depreciation expense for the period in total, see paragraph 360-10-50-1(a))*
- d. *Intangible asset amortization (for separate requirement to disclose intangible asset amortization expense for the period in total, see paragraph 350-30-50-2(a)(2))*
- e. *Depreciation, depletion, and amortization of capitalized acquisition, exploration, and development costs recognized as part of oil- and gas-producing activities (see Subtopic 932-360 on extractive activities — oil and gas — property, plant, and equipment) or other amounts of depletion expense (see paragraph 220-40-50-11).*

ASC 220-40-50-9

The amounts provided for depreciation in accordance with paragraph 220-40-50-6(c) and intangible asset amortization in accordance with paragraph 220-40-50-6(d) shall be consistent with the classification of amounts used to satisfy the disclosure requirements for the total depreciation expense and total intangible asset amortization expense disclosures in paragraphs 360-10-50-1(a) and 350-30-50-2(a)(2), respectively, and with the classification of amounts described in paragraph 220-40-50-10.

ASC 220-40-50-10

Amortization of a right-of-use asset for a finance lease recognized in accordance with paragraphs 842-20-35-7 through 35-8 and amortization of leasehold improvements recognized in accordance with paragraphs 842-20-35-12 through 35-13 shall be disclosed in a manner consistent with how an entity presents depreciation or amortization of similar assets (see

paragraph 842-20-45-4(a)). That is, amounts shall be included as part of either depreciation in paragraph 220-40-50-6(c) or intangible asset amortization in paragraph 220-40-50-6(d).

ASC 220-40-50-11

In determining the amounts to be disclosed in paragraph 220-40-50-6(e), an entity also shall include amounts for depletion expense that are not recognized as part of oil- and gas-producing activities in accordance with Subtopic 932-360 (such as depletion expense recognized by entities within the scope of Topic 930 on mining).

ASC 220-40-50-21

An entity shall disclose, in the same tabular format disclosure in which the disclosures required by paragraph 220-40-50-6 are provided, each of the following expenses, gains, and losses and the amount recognized in each relevant expense caption (see paragraphs 220-40-50-12 through 50-13 for guidance on identifying relevant expense captions): ...

- b. Impairment loss recognized related to an intangible asset (see paragraph 350-30-50-3)*
- c. Impairment loss of long-lived assets classified as held and used (see paragraph 360-10-50-2)*
- d. Gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 for long-lived assets classified as held for sale or disposed of (see paragraph 360-10-50-3) ...*

These disclosures shall be included in the tabular format disclosure required by paragraph 220-40-50-6 using the same frequency (that is, whether the disclosure is required at interim and annual reporting periods or only annual reporting periods) as required by the corresponding Topic.

In November 2024, the FASB issued ASU 2024-03 (codified in ASC 220-40, *Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures*), which requires public business entities to provide disaggregated income statement expense disclosures, including disclosures about depreciation, amortization, and impairments. The primary goal of ASU 2024-03 was to provide greater transparency about the components of specific expense categories in the income statement. Previously, U.S. GAAP did not require disaggregated disclosure of specific expense captions unless required by industry-specific guidance or in connection with certain circumstances, such as a goodwill impairment.

ASU 2024-03 requires public business entities to disclose the amounts recognized in certain expense categories for each relevant expense caption³⁷ within continuing operations. The disclosure must be presented in a tabular format in the notes to the financial statements. The expense categories that must be disclosed are as follows:

- ▶ Purchases of inventory using the expense or cost-incurred approach
- ▶ Employee compensation
- ▶ Depreciation
- ▶ Amortization
- ▶ Depreciation, depletion, and amortization recognized as part of oil and gas-producing activities

The requirements in ASU 2024-03 are applicable for public business entities for annual reporting periods beginning after December 15, 2026, and for interim reporting periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted. See BDO's Bulletin, [FASB Finalizes ASU to Disaggregate Income Statement Expenses \(DISE\)](#), for more information, including an example of the new requirements.

³⁷ A relevant expense caption is one that is presented on the face of the income statement and includes any of the expense categories listed above.

6.2.9 Statement of Cash Flows: Assets Held and Used

ASC 350 and ASC 360 do not provide guidance on the statement of cash flows presentation. Instead, entities should apply the following guidance (see BDO's Blueprint, [Statement of Cash Flows Under ASC 230](#)):

- ▶ Cash payments to acquire intangible assets and PP&E in an asset acquisition are generally presented as cash outflows for investing activities (see Section 4.2 of that Blueprint).
- ▶ Cash payments to acquire a business (which often includes goodwill, intangible assets, and PP&E) are presented as cash outflows from investing activities (see Section 5.6 of that Blueprint).
- ▶ Amortization, depreciation, and impairments are reflected as noncash add backs to reconcile net income to cash flows from operating activities in the statement of cash flows when the indirect method of reporting is used (see Section 3.3.2 of that Blueprint).
- ▶ Cash received from the sale of a long-lived asset or disposal group is generally presented as a cash inflow from investing activities (see Section 4.2 of that Blueprint).

6.3 ASSETS HELD FOR SALE: PRESENTATION AND DISCLOSURES

6.3.1 Balance Sheet: Assets Held for Sale



FASB REFERENCES

ASC 205-20-45-10, ASC 210-10-45-4, and ASC 360-10-45-14

The balance sheet presentation for assets held for sale depends on the nature of the item and whether it qualifies for presentation as a discontinued operation.

A long-lived asset (disposal group) that meets the held-for-sale criteria (see Section 3.3.2) but does not qualify for presentation as a discontinued operation in accordance with ASC 205-20-45-1B³⁸ must be separately presented in the **current period** balance sheet.

The assets and liabilities of a disposal group that meets the held-for-sale criteria (but do not qualify for presentation as a discontinued operation) are presented separately in the asset and liability sections, respectively, of the **current period** balance sheet. Those assets and liabilities cannot be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale are either separately presented on the balance sheet or disclosed (see Section 6.3.1.1).

If a component of an entity that meets the held-for-sale criteria qualifies for presentation as a discontinued operation, the component's assets and liabilities must be presented separately in the asset and liability sections of the balance sheet for the **current period and for all prior periods** presented. Similarly, if a component that qualifies for presentation as a discontinued operation is disposed of during the period, the assets and liabilities of the component must be presented separately in the asset and liability sections of the balance sheet **for all prior periods**.

³⁸ Long-lived assets that are classified as held for sale qualify for presentation as a discontinued operation if their disposal represents a strategic shift that has a major effect on an entity's operations and financial results.

BDO INSIGHT 6-7: RECASTING PRIOR PERIOD BALANCE SHEETS FOR DISPOSAL GROUPS THAT DO NOT QUALIFY AS DISCONTINUED OPERATIONS

For an asset (disposal group) that meets the held-for-sale criteria but does not qualify for presentation as discontinued operations, ASC 360-10-45-14 requires that the asset or disposal group be presented separately (as held-for-sale) in the **current period** balance sheet but is silent on whether recasting of prior period balance sheets is acceptable. We believe that an entity may recast the prior period balances for comparability purposes if it chooses to do so.

BDO INSIGHT 6-8: PRESENTING HELD-FOR-SALE ASSETS ON A CLASSIFIED BALANCE SHEET

ASC 360 does not provide guidance on whether held-for-sale assets or disposal groups should be presented as current or noncurrent. We believe that long-lived assets or disposal groups that meet the held-for-sale criteria should generally be classified as current in the period when the held-for-sale criteria are met because the entity generally expects to sell the assets within one year. However, if the proceeds from the sale are expected to be used to pay down long-term debt, it may be appropriate to classify the asset (disposal group) as noncurrent, in accordance with ASC 210-10-45-4.

If a component qualifies for presentation as a discontinued operation, its assets and liabilities that are separately presented in comparative prior periods must retain their classification as current or noncurrent, based on their nature and the entity's expectations that existed in those prior periods.

Determining whether a held-for-sale asset or disposal group should be presented as current or noncurrent requires the use of professional judgment based on the facts and circumstances.

6.3.1.1 Disclosures: Assets Held for Sale**FASB REFERENCES****ASC 360-10-50-3**

For any period in which a long-lived asset (disposal group) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:

- a. A description of the facts and circumstances leading to the disposal or the expected disposal.*
- b. The expected manner and timing of that disposal.*
- c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.*
- d. If not separately presented on the face of the statement where net income is reported (or in the statement of activities for a not-for-profit entity), the caption in the statement where net income is reported (or in the statement of activities for a not-for-profit entity) that includes that gain or loss.*
- e. If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale. Any loss recognized on the disposal group classified as held for sale in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.*

f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

See paragraphs 220-40-50-21 through 50-25 for additional disclosure requirements.

If a long-lived asset or disposal group is disposed or classified as held for sale, the entity must disclose (i) the facts and circumstances leading to the disposal or expected disposal and (ii) the expected manner and timing of the disposal. Additionally, the entity must disclose the gain or loss recognized and where the gain or loss has been presented in the income statement (including which segment, if applicable). Additionally, if the carrying amounts of the major classes of assets and liabilities included in the held-for-sale disposal group are not presented separately on the balance sheet, they must be disclosed.

If applicable, the entity must also provide the disclosures required by ASC 820-10-50 for non-recurring fair value measurements.

6.3.2 Income Statement: Assets Held for Sale



FASB REFERENCES

ASC 205-20-45-3 through 45-3B and ASC 360-10-45-3 through 45-5

If a component of an entity that meets the held-for-sale criteria qualifies for presentation as a discontinued operation in accordance with ASC 205-20-45-1B³⁹, the results of operations for that component, including the gain or loss that results from remeasuring the held-for-sale asset or disposal group to the lower of its carrying amount or fair value less costs to sell (see Section 3.3), must be separately presented on a net-of-tax basis in the income statement for the **current period and for all prior periods** presented. The gain or loss must be disclosed either on the face of the income statement or in the notes.

BDO INSIGHT 6-9: PRESENTATION OF GAINS AND LOSSES FROM REMEASURING HELD-FOR-SALE ASSETS

For a held-for-sale asset or disposal group that does not qualify as a discontinued operation, ASC 360 does not provide explicit guidance for the income statement presentation of gains and losses that result from remeasuring the held-for-sale asset (disposal group) to the lower of its carrying amount or fair value less costs to sell (see Section 3.3).

However, ASC 360 does provide presentation guidance for two similar items: impairments of held-and-used long-lived assets (see Section 6.2.5.1) and gains and losses on the sale of held-and-used long-lived assets (disposal groups) that do not qualify as discontinued operations (see Section 6.2.5.2). We believe that gains and losses that result from remeasuring a held-for-sale asset or disposal group (that does not qualify as a discontinued operation) to the lower of its carrying amount or fair value less costs to sell should be presented in the same way. In both cases, the gains and losses are required to be included within income from continuing operations before income taxes, and if an entity presents a subtotal for operating income, the gains and losses must be included in that subtotal.

³⁹ Long-lived assets that are classified as held for sale qualify for presentation as a discontinued operation if their disposal represents a strategic shift that has a major effect on an entity's operations and financial results.

6.3.2.1 Individually Significant Component That Does Not Qualify for Discontinued Operations



FASB REFERENCES

ASC 360-10-50-3A

In addition to the disclosures in paragraph 360-10-50-3, if a long-lived asset (disposal group) includes an individually significant component of an entity that either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9) and does not qualify for presentation and disclosure as a discontinued operation (see Subtopic 205-20 on discontinued operations), a public business entity and a not-for-profit entity that 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 shall disclose the information in (a). All other entities shall disclose the information in (b). The following disclosures are required in interim and annual reporting periods:

- a. *For a public business entity and a not-for-profit entity that 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, both of the following:*
 1. *The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity) calculated in accordance with paragraphs 205-20-45-6 through 45-9*
 2. *If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).*
- b. *For all other entities, both of the following:*
 1. *The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale calculated in accordance with paragraphs 205-20-45-6 through 45-9*
 2. *If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale.*

If an individually significant component has been disposed of or classified as held for sale but does not qualify as a discontinued operation, ASC 360 requires the entity to disclose information about the component's pretax profit or loss. If that individually significant component includes a noncontrolling interest, the pretax profit or loss attributable to the parent must also be disclosed. These disclosures are required in interim and annual periods. For public business entities, these disclosures are required in the period the component is disposed or classified as held for sale, and all prior periods presented. For other entities, the disclosures are required in the period the component is disposed or classified as held for sale. There is no guidance for determining whether a component is individually significant, so judgment must be applied.

6.3.3 Statement of Cash Flows: Assets Held for Sale

ASC 360 does not provide guidance on the statement of cash flows presentation for assets held for sale. Instead, entities should apply the following guidance (see BDO's Blueprint, [Statement of Cash Flows Under ASC 230](#)):

- ▶ Gains and losses that result from remeasuring an asset or disposal group to the lower of its carrying amount or fair value less costs to sell are reflected as noncash add backs to reconcile net income to cash flows from operating activities in the statement of cash flows when the indirect method is used (see Section 3.3.2 of that Blueprint).
- ▶ Cash received from the sale of a long-lived asset or disposal group is generally presented as a cash inflow from investing activities (see Section 4.2 of that Blueprint).
- ▶ For a held-for-sale disposal group that qualifies for presentation as discontinued operations, the statement of cash flows can be presented in one of three ways approved by the SEC staff (see Section 3.5 of that Blueprint).

6.3.4 Changes to a Plan of Sale



FASB REFERENCES

ASC 205-20-50-3

An entity may change its plan of sale as addressed in paragraph 360-10-35-44 or paragraph 360-10-35-45. In the period in which the decision is made to change the plan for selling the discontinued operation, an entity shall disclose in the notes to interim and annual financial statements a description of the facts and circumstances leading to the decision to change that plan and the change's effect on the results of operations for the period and any prior periods presented.

ASC 360-10-45-6

If circumstances arise that previously were considered unlikely and, as a result, an entity decides not to sell a long-lived asset (disposal group) previously classified as held for sale, the asset (disposal group) shall be reclassified as held and used.

ASC 360-10-45-7

Any required adjustment to the carrying amount of a long-lived asset that is reclassified as held and used shall be included in income from continuing operations in the period of the subsequent decision not to sell. That adjustment shall be reported in the same income statement caption used to report a loss, if any, recognized in accordance with paragraph 360-10-45-5. If a component of an entity is reclassified as held and used, the results of operations of the component previously reported in discontinued operations in accordance with paragraph 205-20-45-3 shall be reclassified and included in income from continuing operations for all periods presented.

ASC 360-10-45-8

Any long-lived assets that will not be sold shall be reclassified as held and used in accordance with paragraph 360-10-35-44.

If an entity initially meets the requirements to present an asset or disposal group as held for sale but circumstances change so that the requirements are no longer met, the asset or disposal group must be reclassified as held and used. Any required adjustments to the carrying amounts of long-lived assets that are reclassified as held and used (see Section 3.3.4) must be included in income from continuing operations before income taxes. (This is the same income statement caption used to report a disposal loss).

Further, if a component of an entity that was previously presented in discontinued operations no longer meets the held-for-sale criteria, the results of operations for that component must be reclassified and included in income from continuing operations for all periods presented.

Additionally, whenever a change is made to a plan of sale, the entity must disclose (i) a description of the facts and circumstances leading to the decision to change that plan and (ii) the change's effect on the results of operations for the period and any prior periods presented. These disclosures are required for both interim and annual financial statements.

6.4 ASSETS TO BE DISPOSED OF OTHER THAN BY SALE: PRESENTATION AND DISCLOSURES



FASB REFERENCES

ASC 360-10-45-15

A long-lived asset to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) shall continue to be classified as held and used until it is disposed of. The guidance on long-lived assets to be held and used in Sections 360-10-35, 360-10-45, and 360-10-50 shall apply while the asset is classified as held and used. If a long-lived asset is to be abandoned or distributed to owners in a spinoff together with other assets (and liabilities) as a group and that disposal group meets the conditions in paragraphs 260-20-45-1A through 45-1C to be reported in discontinued operations, paragraphs 205-20-45-3 through 45-5 shall apply to the disposal group at the date it is disposed of.

Long-lived assets to be disposed of other than by sale must be classified as held and used until they are disposed of. As such, an entity must follow all the presentation and disclosure requirements discussed in Section 6.2.

Appendix A: Other BDO Publications



BDO's Professional Practice — Accounting Group has issued the following Blueprints, which provide detailed accounting guidance, interpretive insights, and practical examples on complex areas of U.S. GAAP:

- ▶ [Accounting for Software Costs](#)
- ▶ [Statement of Cash Flows Under ASC 230](#)
- ▶ [Segment Reporting Under ASC 280](#)
- ▶ [Equity Method Investments Under ASC 323](#)
- ▶ [Revenue Recognition Under ASC 606](#)
- ▶ [Share-based Payments Under ASC 718](#)
- ▶ [Business Combinations Under ASC 805](#)
- ▶ [Control and Consolidation Under ASC 810](#)
- ▶ [Accounting for Leases Under ASC 842](#)
- ▶ [Issuer's Accounting for Complex Financial Instruments](#)

BDO's Professional Practice — SEC Services Group has issued the following Blueprints to help SEC registrants apply the SEC's rules and regulations related to financial reporting:

- ▶ [Guide to Going Public](#)

Series Overview: Building Knowledge

In addition to Blueprints, BDO's Professional Practice has issued a suite of publications related to U.S. GAAP and SEC rules and regulations:

- ▶ [Bulletins](#): short, timely communications delivering essential news, alerts, and developments in accounting and SEC reporting
- ▶ [Snapshots](#): summaries of SEC rules and regulations
- ▶ [SEC Reporting Insights](#), updated annually
- ▶ [Conference Highlights: Current SEC & PCAOB Developments](#), updated annually
- ▶ [Effective Date Reminders](#), updated annually
- ▶ [Industry Supplements](#)
- ▶ [Other publications](#) on new accounting standards and SEC rules and regulations.

For more information on IFRS, visit BDO's [IFRS and Corporate Reporting](#).



Contacts

JON LINVILLE
Professional Practice Principal — Accounting
214-243-2940 / jlinville@bdo.com

ADAM BROWN
Chief Accountant
214-665-0673 / abrown@bdo.com

ANGELA NEWELL
Deputy Chief Accountant
214-689-5669 / ajnewell@bdo.com

MEREDITH TAYLOR
Professional Practice Principal — Accounting
571-461-6744 / mltaylor@bdo.com

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