In brief

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(updated April 21, 2021)

FASB issues private company goodwill impairment alternative

This In brief was updated to reflect revised views regarding the definition of a reporting period based on a discussion at the April 20 meeting of the FASB's Private Company Council.

At a glance

The FASB has issued new guidance providing private companies and not-for-profit entities (NFPs) with the option to evaluate goodwill impairment triggering events only as of the end of a reporting period.

What happened?

On March 30, the FASB issued guidance introducing an accounting alternative allowing private companies and not-for-profit entities (NFPs) (collectively referred to in this publication as "private companies") to forgo the evaluation of goodwill impairment triggering events occurring throughout a reporting period. Under the accounting alternative, triggering events only need to be assessed as of the end of a reporting period, whether interim or annual.

There is no change to the impairment guidance for other assets, such as long-lived assets and indefinite lived intangibles.

Why is this important?

Under current guidance, entities are required to monitor for, identify, and evaluate goodwill impairment triggering events during the reporting period. If a triggering event occurs and an entity concludes that it is "more likely than not" that goodwill is impaired, it must test goodwill for impairment using the triggering event date as the impairment measurement date.

Many private companies evaluate the entire reporting period for goodwill impairment as part of their annual reporting process. Performing this evaluation at year-end makes it difficult to determine whether a goodwill impairment triggering event occurred during the reporting period and creates challenges in recognizing and measuring any resulting goodwill impairment charge as of the interim trigger date.

The accounting alternative is intended to reduce the cost and complexity of this model, which was further exacerbated for many private companies due to the economic uncertainty and volatility caused by COVID-19. The accounting alternative, if adopted, allows private companies to evaluate goodwill impairment triggering events only as of the end of the reporting period, whether interim or annual, and to recognize and measure any resulting goodwill impairment as of that date, if necessary. This may provide relief to private companies by eliminating the requirement to evaluate goodwill impairment triggering events as they occur during the reporting period.

Frequency of reporting period

In the Background Information and Basis for Conclusions, the Board acknowledged that many private companies provide users of their financial statements with some level of financial information more frequently than annually that indicates it complies with the recognition and measurement principles of GAAP, which may create a reporting period. However, the Board did not define the term "reporting period;" instead, it indicated that it does not expect the provisions of the guidance to change an entity's understanding of its reporting periods. The Board also stated that it intends the final guidance to only affect the timing of an entity's evaluation of the occurrence of goodwill impairment triggering events, not an entity's understanding of its reporting periods. A FASB staff member emphasized these points during an April 20, 2021 meeting of the Private Company Council.

A private company may prepare interim financial statements on a quarterly basis under a contractual arrangement with its equity holders or for debt compliance purposes. If such interim financial statements are prepared in accordance with US GAAP, including relevant footnote disclosures in accordance with ASC 270-10, we believe a private company electing the accounting alternative would be required to assess goodwill impairment triggering events as of each interim reporting date.

Alternatively, a private company may provide only limited financial information (e.g., balance sheet and income statement) to a lender supporting quarterly debt covenant calculations. In this scenario, the private company should carefully consider whether such financial information is asserted to be recognized and measured in accordance with GAAP. If it is, the quarterly period could be considered a reporting period, in which case goodwill impairment triggers would need to be assessed as of the end of the quarter.

In evaluating what constitutes a reporting period, private companies should consider all financial information reported to external users, including equity holders, lenders, management, and other third parties, including whether such information is asserted to be recognized and measured in accordance with GAAP.

Private companies planning to go public

Similar to other private company accounting alternatives, companies should consider whether they currently meet the definition of a public business entity and whether they expect to meet that definition in the future. If a company that is private today later meets the definition of a public business entity (e.g., due to a public offering of the company's securities), it will no longer be eligible to apply the goodwill alternative and will be required to retrospectively adjust its historical financial statements to apply the requirements of the existing goodwill accounting guidance. Given the nature of the goodwill triggering event accounting alternative, "unwinding" such an election would likely present significant challenges.

What's next?

The guidance is effective prospectively for fiscal years beginning after December 15, 2019. Early adoption is allowed for any financial statements that have not been issued or made available for issuance as of March 30, 2021. Similar to other private company accounting alternatives, entities are provided with an unconditional one-time option to adopt the guidance alternative prospectively at any time after its effective date without assessing preferability.

Private companies are allowed to elect the new accounting alternative irrespective of whether they have elected the existing accounting alternative that allows for the amortization of goodwill.

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