

U.S. GAAP vs. IFRS: Impairment of long-lived assets

Prepared by:

Richard Stuart, Partner, National Professional Standards Group, RSM US LLP
richard.stuart@rsmus.com, +1 203 905 5027

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Introduction

Currently, more than 120 countries require or permit the use of International Financial Reporting Standards (IFRS), with a significant number of countries requiring IFRS (or some form of IFRS) by public entities (as defined by those specific countries). Of those countries that do not require use of IFRS by public entities, perhaps the most significant is the U.S. The U.S. Securities and Exchange Commission (SEC) requires domestic registrants to apply U.S. generally accepted accounting principles (GAAP), while foreign private issuers are allowed to use IFRS as issued by the International Accounting Standards Board (which is the IFRS focused on in this comparison). While the SEC continues to discuss the possibility of allowing domestic registrants to provide supplemental financial information based on IFRS (with a reconciliation to U.S. GAAP), there does not appear to be a specified timeline for moving forward with that possibility.

Although the SEC currently has no plans to permit the use of IFRS by domestic registrants, IFRS remains relevant to these entities, as well as private companies in the U.S., given the continued expansion of IFRS use across the globe. For example, many U.S. companies are part of multinational entities for which financial statements are prepared in accordance with IFRS, or may wish to compare themselves to such entities. Alternatively, a U.S. company's business goals might include international expansion through organic growth or acquisitions. For these and other reasons, it is critical to gain an understanding of the effects of IFRS on a company's financial statements. To start this process, we have prepared [a series of comparisons](#) dedicated to highlighting significant differences between U.S. GAAP and IFRS. This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for the impairment of long-lived assets.

The guidance related to accounting for the impairment of goodwill and indefinite-lived intangible assets in U.S. GAAP is included in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 350, *Intangibles—Goodwill and Other*, and the guidance related to accounting for the impairment or disposal of other long-lived assets in U.S. GAAP is included in ASC 360, *Property, Plant, and Equipment*. In IFRS, the guidance related to accounting for the impairment of long-lived assets is included in International Accounting Standard (IAS) 36, *Impairment of Assets*.

Nature of and effective date for recent goodwill impairment simplifications in U.S. GAAP

Note that under U.S. GAAP, in January 2017, the subsequent measurement of goodwill was simplified by the issuance of Accounting Standards Update (ASU) 2017-04, *Intangibles—Goodwill*

and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The simplifications in this ASU are effective for public business entities that are SEC filers (other than those eligible to smaller reporting companies [as defined by the SEC]) for annual and interim goodwill impairment tests performed for periods beginning after December 15, 2019. For all other entities, the simplifications are effective for annual and interim goodwill impairment tests in periods beginning after December 15, 2022. Early adoption of the simplifications is permitted.

Under the simplified guidance in ASU 2017-04, Step 2 of the goodwill impairment test is eliminated. Step 2 had required entities to compute the implied fair value of goodwill, which in turn had required entities to determine the fair value at the testing date of their assets and liabilities. Under the simplified guidance, an entity performs its goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount. If the carrying amount of the reporting unit exceeds the fair value, the entity recognizes an impairment loss in the amount of that excess, with an upper limit on that loss of the amount of goodwill allocated to the reporting unit. Under the simplified guidance, an entity may still elect to apply the qualitative assessment as to whether goodwill is impaired before undertaking the otherwise required quantitative assessment as to whether goodwill is impaired.

The simplifications in ASU 2017-04 also eliminate the requirement for any reporting unit that has a zero or negative carrying amount to perform a qualitative assessment, and if necessary, to perform Step 2 of the impairment test. As a result of this elimination, the same impairment test applies regardless of whether the reporting has a zero or negative carrying amount.

Once adopted, the simplifications will make goodwill impairment testing under U.S. GAAP more similar to that under IFRS; although, the unit of account for the impairment testing will continue to be a reporting unit under U.S. GAAP and a cash-generating unit (CGU) under IFRS.

Comparison

The significant differences between U.S. GAAP and IFRS related to accounting for the impairment of goodwill, indefinite-lived intangible assets and long-lived assets to be held and used are summarized in the following tables.

Impairment of goodwill		
	U.S. GAAP	IFRS
Relevant guidance	ASC 350	IAS 36
Goodwill allocation	Goodwill is allocated to a reporting unit. Depending on the facts and circumstances, a reporting unit is either an operating segment or one level below an operating segment (which is also referred to as a <i>component</i>).	Goodwill is allocated to a CGU. A CGU is the smallest identifiable group of assets that generates cash flows that are largely independent of the cash flows from other assets or groups of assets. A CGU cannot be larger than an operating segment.
Recognition of impairment loss	An impairment loss is recognized when the carrying amount of the reporting unit (unless the carrying amount is zero or negative) is greater than its fair	A one-step approach compares the carrying amount of a CGU (including goodwill) to its recoverable amount. When the carrying amount of a CGU is

Impairment of goodwill		
	U.S. GAAP	IFRS
	<p>value (Step 1) and the carrying amount of goodwill is greater than its implied fair value (Step 2). When the carrying amount of a reporting unit is zero or negative, an impairment loss is recognized when a qualitative assessment indicates that it is more likely than not that a goodwill impairment exists and the carrying amount of goodwill is greater than its implied fair value.</p> <p>Prior to performing Step 1, entities may elect to perform a qualitative assessment of whether it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. If the qualitative assessment indicates that it is more likely than not that the carrying amount of a reporting unit exceeds its fair value, then Step 1 must be performed. If the opposite is true, the impairment test is complete.</p> <p>As discussed earlier, the FASB simplified goodwill impairment accounting. Once adopted, the simplifications eliminate Step 2 from the goodwill impairment test, and require goodwill impairment tests to be performed using the single step of comparing the fair value of a reporting unit to the carrying amount of the reporting unit. However, an entity may still elect to apply the qualitative assessment as to whether goodwill is impaired before undertaking the otherwise required quantitative assessment.</p>	<p>greater than its recoverable amount, an impairment loss is recognized. The <i>recoverable amount</i> is the greater of: (a) the fair value less costs to sell and (b) the value in use (i.e., the present value of future cash flows expected to be derived from the CGU).</p> <p>Any impairment loss is treated as a reduction of the goodwill balance, until that balance is reduced to zero. Any additional impairment loss generally is allocated pro rata to each asset in the CGU.</p>

Impairment of goodwill		
	U.S. GAAP	IFRS
Measurement of impairment loss	<p>Before adoption of the simplifications in ASU 2017-04, the impairment loss is the amount by which the carrying amount of goodwill in a reporting unit exceeds its implied fair value.</p> <p>Upon adoption of the simplifications in ASU 2017-04, the impairment loss will be the amount by which the reporting unit's carrying amount exceeds its fair value, limited to the carrying amount of goodwill allocated to the reporting unit (i.e., an impairment loss should not result in negative goodwill).</p>	<p>The impairment loss is the amount by which the carrying amount of the CGU (including goodwill) exceeds its recoverable amount. That loss is then allocated first to goodwill, until goodwill is reduced to zero. The carrying amounts of other assets in the CGU are then reduced, on a pro-rata basis (subject to certain exceptions).</p>
Reversal of impairment loss	Prohibited.	Prohibited.
Impairment of indefinite-lived intangible assets		
Relevant guidance	ASC 350	IAS 36
Unit of account	In general, the unit of account is an individual asset. However, in rare cases, the unit of account may be a combined group of separately recorded indefinite-lived intangible assets that are essentially inseparable from one another.	When possible, the impairment test should be carried out at the individual asset level. If the test cannot be performed at the individual asset level, it should be performed at the CGU level.
Recognition and measurement of impairment loss	<p>An impairment loss is recognized for the amount by which the carrying amount of the intangible asset exceeds its fair value.</p> <p>An entity has the option to first assess qualitative factors to determine whether it is necessary to estimate the fair value of an indefinite-lived intangible asset. An entity electing this option only has to</p>	<p>An impairment loss is recognized for the amount by which the carrying value of the intangible asset exceeds its recoverable amount. The <i>recoverable amount</i> is the greater of: (a) the fair value less costs to sell and (b) the value in use (i.e., the present value of future cash flows expected to be derived from the asset[s]).</p>

Impairment of indefinite-lived intangible assets

	U.S. GAAP	IFRS
	estimate the fair value of an indefinite-lived intangible asset if its qualitative assessment indicates it is <i>more likely than not</i> that the asset is impaired. If the estimate of fair value is needed, the fair value is determined and then compared to the carrying amount.	The option to assess qualitative factors to determine if further impairment testing is required does not exist in IFRS.
Reversal of impairment loss	Prohibited.	For indefinite-lived intangible assets on which an impairment loss has been recognized in the past, an entity must perform an annual review for indicators of reversal. If such an indicator exists, the entity estimates the recoverable amount of the asset(s) in question and previously recognized impairment losses are reversed in an amount that increases the carrying amount of the asset(s) up to the new recoverable amount, subject to a ceiling of the amount necessary to restore the carrying amount of the asset(s) to its initial carrying amount.

Impairment of long-lived assets to be held and used

	U.S. GAAP	IFRS
Relevant guidance	ASC 360	IAS 36
Unit of account	The unit of account is an asset group, which is defined in the Master Glossary of the ASC as “the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.” An asset group almost always includes multiple assets.	When possible, the impairment test should be carried out at the individual asset level. If the test cannot be performed at the individual asset level, it should be performed at the CGU level.

Impairment of long-lived assets to be held and used		
	U.S. GAAP	IFRS
	In other words, an asset group is rarely a single asset.	
Recognition of impairment loss	An impairment loss is recognized when the carrying amount of an asset group is not recoverable (that is, the carrying amount is greater than the undiscounted cash flows expected to be derived from the asset group) and the carrying amount of the asset group exceeds its fair value.	An impairment loss is recognized when the carrying amount is greater than the recoverable amount. The <i>recoverable amount</i> is the greater of: (a) the fair value less costs to sell and (b) the value in use (i.e., the present value of future cash flows expected to be derived from the asset[s]).
Measurement of impairment loss	The impairment loss is the excess of the carrying amount of an asset group over its fair value.	The impairment loss is the excess of the carrying amount of the asset over its recoverable amount.
Reversal of impairment loss	Prohibited.	For long-lived assets to be held and used on which an impairment loss has been recognized in the past, an entity must perform an annual review for indicators of reversal. If such an indicator exists, the entity estimates the recoverable amount of the asset(s) in question and previously recognized impairment losses are reversed in an amount that increases the carrying amount of the asset(s) up to the new recoverable amount, subject to a ceiling of the amount necessary to restore the carrying amount of the asset(s) to what its initial carrying amount would have been if the prior impairment loss(es) had not been recognized (that is, what the carrying amount would have been after adjusting for regular depreciation expense that would have been recognized).

These are the significant differences between U.S. GAAP and IFRS related to accounting for the impairment of long-lived assets. Refer to ASC 350 and 360 and IAS 36 for all of the specific requirements applicable to accounting for the impairment of long-lived assets. In addition, refer to our [U.S. GAAP vs. IFRS comparisons series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

Consult your RSM US LLP service provider concerning your situation and any specific questions you may have. You may also contact us toll-free at 800.274.3978 for a contact person in your area.

+1 800 274 3978
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U.S. GAAP vs. IFRS: Impairment of long-lived assets resulted from the efforts and ideas of various RSM US LLP professionals, including members of the National Professional Standards Group, as well as contributions from RSM UK and RSM Canada professionals.

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