ACCOUNTING BRIEF

Snapshot: Accounting for the impairment of goodwill and other long-lived assets

November 2024

SUMMARY

Accounting for the impairment of goodwill and other long-lived assets is complex, because there are different models depending on the type of asset involved. Each model uses a different unit of account, and each has a different impairment recognition threshold. The frequency with which impairment must be assessed and the basis used to measure an impairment charge varies across some of these models.

Provided below is a table comparing the relevant accounting guidance in the FASB's Accounting Standards Codification (ASC) for different types and groups of long-lived assets. The table itself includes guidance that should be followed by an entity that has not elected either of the qualitative assessment options. In addition, the table includes guidance for the private company alternatives for goodwill ("PC alternative"). The qualitative assessment options and additional information about the PC alternative are captured in the numbered notes that follow the table, along with additional explanations for certain other concepts in the table. After the notes, links have been provided to other resources that cover various aspects of the impairment models presented in the table.

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Indefinite-lived intangible assets	Long-lived assets to be held and used[1]	Goodwill[2]	Long-lived assets to be disposed of by sale
ASC topic			
ASC 350	ASC 360	ASC 350	ASC 360
Existence of private company (PC) alternative			
No	No	Yes[2]	No
Frequency			
Annual test is required; interim test is necessary if triggers are present	Test is required only if triggers are present	Annual test is required; interim test is necessary if triggers are present **PC alternative:** Test is required only if triggers are present and, in some cases, may be performed as of the end of each reporting period, instead of the date of the triggering event[2]	Test is required if held-for-sale criteria are met
Unit of account			
In general, individual asset[3]	Asset group[4]	Reporting unit[5] **PC alternative:** Entity level or reporting unit (accounting policy election)[2]	Individual asset to be disposed of or a group of assets to be disposed of (i.e., disposal group)
Evaluated for impairment before unit of account			
Not applicable	Indefinite-lived intangible assets and other assets within the asset group[6]	Indefinite-lived intangible assets, long-lived assets to be held and used and other assets within the reporting unit[7]	Indefinite-lived intangible assets, goodwill and other assets within the disposal group[7]
Single- or multi-step test			
Single-step[7]	Multi-step	Single-step	Single-step
Impairment recognition threshold			
When the carrying amount is greater than fair value[7]	When the carrying amount is greater than both the undiscounted cash flows	When the carrying amount of the reporting	A loss should be recognized when the carrying amount is

Indefinite-lived intangible assets	Long-lived assets to be held and used[1]	Goodwill[2]	Long-lived assets to be disposed of by sale
	(recoverability test) and fair value[8,9]	unit is greater than its fair value[10,12] **PC alternative:** When the carrying amount of the entity (or reporting unit) is greater than its fair value[2]	greater than fair value less costs to sell. A gain should be recognized for any subsequent increase in fair value less cost to sell, but not to exceed the cumulative loss previously recognized.
Measurement			
The excess of the carrying amount over fair value	The excess of the carrying amount over fair value[9, 13]	The excess of the carrying amount of the reporting unit over its fair value, limited to the carrying amount of goodwill allocated to the reporting unit **PC alternative:** The excess of the carrying amount of the entity (or reporting unit) over its fair value, limited to the carrying amount of goodwill (or the carrying amount of goodwill allocated to the reporting unit)[2]	Carrying amount is adjusted to the lower of the carrying amount or fair value less costs to sell in each reporting period

Note 1: The types of assets covered by the caption “long-lived assets to be held and used” include those long-lived assets within the scope of ASC 360-10-15, such as property, plant and equipment; ROU lease assets; amortizable intangible assets; internal use software; and long-term prepaid assets.

Note 2: The FASB has provided the following two accounting alternatives for private companies and not-for-profit entities that simplify the subsequent accounting for goodwill:

- Overall goodwill accounting alternative, which permits an entity to perform an impairment test only when there is a triggering event. If a private company elects this alternative, it must also amortize goodwill over a period not to exceed 10 years. In addition, for purposes of recognizing and measuring any impairment loss, the carrying amount of the entity (or reporting unit) should take into consideration the income tax effects from any tax-deductible goodwill, if applicable.
- Goodwill impairment triggering event alternative, which allows entities to perform the goodwill impairment triggering event analysis and related impairment test as of the end of each reporting period, whether an interim or annual reporting period, instead of throughout the reporting period.

For additional information about the private company goodwill alternatives, refer to our white paper, Goodwill alternatives for private companies and not-for-profits.

Note 3: 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.

Note 4: The Master Glossary of the ASC defines an asset group 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. In other words, an asset group is rarely a single asset.

Note 5: The Master Glossary of the ASC defines a reporting unit as "an operating segment or one level below an operating segment (also known as a component)." The Master Glossary of the ASC defines an operating segment as "a component of a public entity" and refers to FASB ASC 280-10-50 for additional guidance on what constitutes an operating segment. While the definition refers to a public entity, this guidance is equally applicable to a private company when identifying reporting units for purposes of its goodwill impairment testing (unless the private company elected the private company goodwill alternative [see Note 2] and elected to test for goodwill impairment at the entity level). Based on the guidance in ASC 280-10-50, an operating segment is a component of a public entity if it possesses all of the following characteristics:

- It engages in business activities from which it may earn revenue and incur expenses (including those resulting from intercompany transactions).
- Its operating results are regularly reviewed by the chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance.
- Its discrete financial information is available. Neither a reporting unit nor an operating segment is the same as a reportable segment.

Once operating segments are determined, they become the starting point for determining reporting units. A reporting unit will either be the same as the operating segment, or one level below it (a component of an operating segment), but can never be on a more consolidated basis than the operating segment. A component of an operating segment must meet all of the following criteria to be considered a reporting unit:

- It constitutes a business.
- Its discrete financial information is available.
- Its operating results are regularly reviewed by segment management.

Note 6: Other assets for this purpose might include accounts receivable, inventory and equity-method investments, among others (e.g., costs related to customer contracts capitalized under ASC 340-40).

Note 7: An entity can choose whether to first perform a qualitative assessment of whether it is more likely than not (i.e., a likelihood of more than 50 percent) that the indefinite-lived intangible asset is impaired. Factors that should be considered in performing the qualitative assessment are included in ASC 350-30-35-18B. If the qualitative assessment shows that it is more likely than not that the indefinite-lived intangible asset is impaired, then the quantitative assessment must be performed. Otherwise, the indefinite-lived intangible asset impairment test is complete.

Note 8: An entity should not skip or disregard the comparison of the asset group's carrying amount and undiscounted cash flows (i.e., the recoverability test). In other words, an entity should not recognize an impairment charge for the excess of the asset group's carrying amount over its fair value if it passes the recoverability test (i.e., the asset group's carrying amount is less than its undiscounted cash flows).

Note 9: An asset group's undiscounted cash flows and fair value will be different amounts. Undiscounted cash flows do not take the time value of money into consideration, whereas fair value does take the time value of money into consideration. In addition, undiscounted cash flows are estimated using an entity-specific perspective, while fair value is estimated using a market-participant perspective.

Note 10: An entity can choose whether to first perform a qualitative assessment of whether it is more likely than not (i.e., a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment shows that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the entity must perform a quantitative assessment of whether the carrying amount of the reporting unit is greater than its fair value. Otherwise, the goodwill impairment test is complete.

Note 11: The implied fair value of goodwill is determined in the same manner as the amount of goodwill in the accounting for a business combination. An entity measures the assets and liabilities in the reporting unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination, which results in the vast majority of the assets and liabilities being measured at their fair values. The excess, if any, of the fair value of a reporting unit over the net sum of the fair values (and other measured amounts) of the assets and liabilities in the reporting unit is the implied fair value of goodwill.

Note 12: If the carrying amount of a reporting unit is zero or negative, a goodwill impairment charge is generally not recognized because the carrying amount of a reporting unit will rarely exceed its fair value when the carrying amount is zero or negative. However, the following disclosures are required when an entity has one or more reporting units with a zero or negative carrying amount:

- The reporting units with allocated goodwill and the allocated amounts
- The reportable segment that includes the reporting units

For purposes of recognizing and measuring any impairment loss, the carrying amount of the reporting unit should take into consideration the income tax effects from any tax-deductible goodwill, if applicable.

Note 13: The impairment charge is allocated to the long-lived assets in the asset group on a pro-rata basis using the relative carrying amounts of the assets. However, if the fair value of a long-lived asset is determinable without undue cost and effort, the carrying amount of that asset should not be reduced below its fair value. Any unallocated loss as a result of this limitation should be allocated to the other long-lived assets in the asset group on a pro-rata basis using the relative adjusted carrying amounts of those assets.

The following materials relating to the concepts discussed in this paper can be found on our Financial Reporting Resource Center or by clicking on the links below:

- Goodwill alternatives for private companies and not-for-profits
- Simplified accounting for private companies: Certain intangible assets
- Qualitative impairment assessment of indefinite-lived intangible assets
- Impairment testing of long-lived assets classified as held and used
- A guide to accounting for business combinations

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