GOODWILL ALTERNATIVES FOR PRIVATE COMPANIES AND NOT-FOR-PROFITS

November 2024

OVERVIEW

This white paper discusses the accounting alternatives provided by the Financial Accounting Standards Board (FASB) to simplify the subsequent accounting for goodwill by private companies and not-for-profit entities. In this white paper, we explain the scope and key aspects of each alternative and summarize how the election of each alternative affects an eligible entity's subsequent accounting for goodwill in comparison to the guidance that would otherwise be applicable.

TABLE OF CONTENTS

1. General

Relevant guidance: Accounting Standards Codification (ASC) 350-20-05-5 through 05-6, ASC 350-20-15-4 through 15-6, ASC 350-20-35-1, ASC 350-20-35-4 through 35-11, ASC 350-20-35-28, ASC 350-20-35-30, ASC 350-20-35-62 through 35-86, ASC 350-20-40-8, ASC 350-20-40-9, ASC 350-20-45-4 through 45-7, ASC 350-20-50-3A through 50-7 and ASC 350-20-55-26 through 55-29

The Financial Accounting Standards Board (FASB) has provided two accounting alternatives for private companies and not-for-profit entities that simplify the subsequent accounting for goodwill:

- Overall goodwill accounting alternative, which was initially introduced to private companies by Accounting Standards Update (ASU) 2014-02, *Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill*, and expanded to include not-for-profit entities by ASU 2019-06, *Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958): Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*
- Goodwill impairment triggering event alternative, which was introduced to both private companies and not-for-profit entities by ASU 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*

The differences in a private company's or not-for-profit entity's accounting for goodwill if it elects the goodwill alternatives as its accounting policies are summarized in the following table:

	Alternative is elected	Alternative is not elected
Overall goodwill accounting alternative (see Section 3) (Note 1)		
Amortization of goodwill	Yes, over a period not to exceed 10 years (see Section 3.1)	No
Level at which impairment testing is performed	Choice of entity level or reporting unit level (see Section 3.2)	Reporting unit level
Frequency of impairment testing	When there is a triggering event (see Section 3.3 and Section 4)	At least annually and when there is a triggering event (see Section 3.3 and Section 4)
Testing and measuring goodwill for impairment	When the carrying amount of the entity (or reporting unit) is greater than its fair value, recognize an impairment loss for the excess, not to exceed the carrying amount of goodwill (see Section 3.4)	When the carrying amount of the reporting unit is greater than its fair value, recognize an impairment loss for the excess, not to exceed the carrying amount of goodwill
Goodwill impairment triggering event alternative (see Section 4)		
Triggering event impairment analysis (and any resulting impairment test)	Performed as of the end of each reporting period, whether an interim or annual reporting period (and any resulting impairment test is performed as of the end of the reporting period) (see Section 4.1)	Performed throughout the reporting period (and any resulting impairment test is performed as of the date the triggering event occurred)

Note 1: If the overall goodwill accounting alternative is elected, all aspects of it must be elected. In other words, a private company or not-for-profit entity that elects to apply the impairment guidance must also apply the amortization guidance.

1.1 Interaction of goodwill alternatives and intangible asset alternative

Relevant guidance: ASC 350-20-15-6, ASC 805-20-15-2 and ASC 805-20-15-4

There is another accounting alternative for private companies and not-for-profit entities related to the identifiable intangible assets recognized in the accounting for a business combination, which is discussed in our white paper, Simplified accounting for private companies: Certain intangible assets. While a private company or not-for-profit entity may elect the overall goodwill accounting alternative without electing the intangible asset alternative, it may not elect the intangible asset alternative without electing the overall goodwill accounting alternative. The goodwill impairment triggering event alternative may be elected regardless of whether either the overall goodwill accounting alternative or the intangible asset alternative has been elected.

2. Scope of both goodwill alternatives

Relevant guidance: ASC 323-10-35-5, ASC 323-10-35-13, ASC 350-20-15-2, ASC 350-20-15-4 and 15-5, ASC 350-20-35-59, ASC 350-20-35-81, ASC 350-20-35-82 and ASC Master Glossary (*private company* and *not-for-profit entity*)

Private companies and not-for-profit entities that may elect the goodwill alternatives (which will collectively be referred to as eligible entities hereafter) include entities other than:

- Those that meet the definition of a PBE as defined in the Master Glossary of the Codification
- Employee benefit plans that fall within the scope of ASC 960, *Plan Accounting—Defined Benefit Pension Plans*, ASC 962, *Plan Accounting—Defined Contribution Pension Plans*, and ASC 965, *Plan Accounting—Health and Welfare Benefit Plans*

If elected, both goodwill alternatives apply to all new and existing goodwill. In other words, the goodwill alternatives cannot be elected for the goodwill related to some acquisitions, but not the goodwill related to other acquisitions. Both goodwill alternatives also apply to the excess reorganization value that may arise in applying fresh-start reporting as described in ASC 852, *Reorganizations*. In addition, the amortization component of the overall goodwill accounting alternative applies to equity method goodwill, which is a component of an investor's equity method investment (i.e., it is not recorded separately from the equity method investment). As a result, when the overall goodwill accounting alternative is elected, an investor includes amortization of equity method goodwill in the equity method income or loss it recognizes. However, equity method goodwill is not tested for impairment separately from the overall equity method investment. In other words, the overall goodwill accounting alternative, the goodwill impairment triggering event alternative and the goodwill guidance in U.S. GAAP applicable to PBEs and other entities that have not elected the goodwill alternatives are not used to test equity method goodwill for impairment.

3. Overall goodwill accounting alternative

3.1 Amortization

Relevant guidance: ASC 350-20-35-63 through 35-64

The unit of account for goodwill amortization (or the amortization of excess reorganization value) is the goodwill related to each acquisition (or the excess reorganization value related to each reorganization event).

If the overall goodwill accounting alternative is elected, goodwill related to each acquisition is amortized on a straight-line basis over a period not to exceed 10 years. An eligible entity may default to a 10-year amortization period (without justification) or choose to identify and use a shorter useful life if it can demonstrate that the shorter life is more appropriate. For example, if an eligible entity acquires a target primarily to gain control of the target's proprietary intellectual property, and the underlying patent for that intellectual property expires in seven years, it may be appropriate to use a useful life of seven years to amortize any related goodwill. We believe it would rarely, if ever, be possible to demonstrate that a useful life of zero is appropriate.

If changes in the facts and circumstances related to the useful life of an eligible entity's goodwill warrant a revision to that life, the entity may choose, but does not have, to change the goodwill's useful life. When an eligible entity chooses to change the useful life of goodwill, it should ensure that the change will not result in a cumulative useful life for that goodwill in excess of 10 years. The effects of a change to the useful life of goodwill are accounted for prospectively.

3.2 Unit of account for impairment testing

Relevant guidance: ASC 280-10-15-2, ASC 350-20-35-33, ASC 350-20-35-65 and ASC 350-20-65-2(d)

If the overall goodwill accounting alternative is elected, an eligible entity must make an accounting policy election to test goodwill for impairment at the entity level or the reporting unit level. The definition of a reporting unit and the related guidance in the Codification has resulted in numerous practice issues for eligible entities over time. Some of these practice issues arise because the definition of a reporting unit has its origins in ASC 280, *Segment Reporting*, which is only directly applicable to public entities. Electing to perform goodwill impairment testing at the entity level under the overall goodwill accounting alternative will save an eligible entity from having to deal with these practice issues and the related costs in most cases. Additional information about assigning goodwill to reporting units is provided in Section 12.8 of our publication, A guide to accounting for business combinations (our business combinations guide).

3.3 Frequency of impairment testing

Relevant guidance: ASC 350-20-35-3C, ASC 350-20-35-3F, ASC 350-20-35-66, ASC 350-20-35-67 and ASC 350-20-55-26

If the overall goodwill accounting alternative is elected, goodwill should only be tested for impairment when a *triggering event* occurs (unless the goodwill impairment triggering event alternative has been elected [see Section 4]). As indicated in ASC 350-20-35-66, a triggering event is when "an event occurs or circumstances change that indicate that the fair value of the entity (or reporting unit) may be below its carrying amount." For this purpose, the carrying amount includes goodwill. The occurrence of a triggering event draws into question whether the fair value of the entity (or reporting unit) may be below its carrying amount. ASC 350-20-35-3C provides many, but not all, examples of potential triggering events, including a deterioration in general economic conditions, an increased competitive environment, increases in the costs of raw materials or labor, negative or declining cash flows, and changes in key personnel. Other relevant events and circumstances should be considered by the entity to the extent they might affect its fair value or carrying amount (or the fair value or carrying amount of its reporting unit[s]). Positive and mitigating events and circumstances also should be considered.

Identifying and evaluating a triggering event is a subjective practice requiring professional judgment and diligent documentation, and each eligible entity should ensure it has the necessary processes and controls in place. Unless the goodwill impairment triggering event alternative has been elected (see Section 4), a determination should be made at the end of each reporting period as to whether any triggering events occurred during the reporting period. If one or more triggering events occurred, then the eligible entity should test its goodwill for impairment as of when the triggering event(s) occurred.

3.4 Impairment testing and recognition

Relevant guidance: ASC 350-20-35-22 through 35-27, ASC 350-20-35-39 through 35-44, ASC 350-20-35-63, ASC 350-20-35-64, ASC 350-20-35-66 through 35-75, ASC 350-20-35-77, ASC 350-20-35-78 and ASC 350-20-55-26

If the overall goodwill accounting alternative is elected and one or more triggering events occur, an eligible entity must test its goodwill for impairment as of the date the triggering event occurs (unless the goodwill impairment triggering event alternative has been elected [see Section 4]). As part of that testing, an eligible entity must first decide whether it will perform a qualitative assessment of whether its goodwill is impaired. If elected, the qualitative assessment requires the eligible entity to answer the following question after considering all the relevant information available: Is it more likely than not that the fair value of the entity (or reporting unit) is less than the carrying amount of the entity (or reporting unit)? Each time a triggering event occurs, the eligible entity can choose to perform or not perform the qualitative assessment. In other words, the eligible entity's decision to perform or not perform the qualitative assessment when a triggering event occurs does not predetermine what it will have to do the next time a triggering event occurs. Additional information about the qualitative assessment can be found in ASC 350-20-35-68 through 35-69.

Spending the time and effort to perform a qualitative assessment is likely not justified from a cost-benefit perspective under the overall goodwill accounting alternative, as we believe it would be very unlikely that an eligible entity would be able to conclude that it is not more likely than not that its fair value (or the fair value of its reporting unit) is less than its carrying amount (i.e., passing the qualitative assessment) after having just concluded that the fair value of the entity (or reporting unit) may be below its carrying amount (which was the outcome of the triggering event analysis that led to the goodwill impairment testing in the first place).

In the unlikely event that an eligible entity opts to perform the qualitative assessment under the overall goodwill accounting alternative and passes, it is finished with its impairment testing and no impairment is recognized. Otherwise, the eligible entity must proceed to a quantitative assessment, which is also performed if the eligible entity chooses not to perform the qualitative assessment. The quantitative assessment compares the fair value of the entity (or reporting unit) to its carrying amount (which includes goodwill). If the fair value of the entity (or reporting unit) is more than its carrying amount, no impairment is recognized. If the fair value of the entity (or reporting unit) is less than its carrying amount, then an impairment loss is recognized for the excess of the carrying amount over fair value. However, the amount of the impairment loss recognized cannot be more than the carrying amount of the goodwill. Section 3.4.1 discusses the consideration of deferred taxes under the overall goodwill accounting alternative. For purposes of determining the fair value of the entity (or reporting unit) and determining the carrying amount of a reporting unit (if necessary), the eligible entity should follow the guidance in ASC 350-20-35-22 through 35-27 and ASC 350-20-35-39 through 35-44, respectively.

Under the overall goodwill accounting alternative, if a goodwill impairment loss is recognized and the eligible entity has goodwill from more than one acquisition on its books, the impairment loss should be allocated among the goodwill related to each acquisition using a reasonable and rational method. One such method allocates the impairment loss based on the carrying amount of each acquisition's goodwill relative to the entity's (or reporting unit's) total goodwill. We believe another method might take into consideration whether the impairment loss could be attributed to a particular acquisition.

Recognition of a goodwill impairment loss establishes a new basis for the goodwill. It is not appropriate to reverse the impairment loss under any circumstances. The new basis in goodwill is amortized over its remaining useful life (see Section 3.1). Consider a situation in which an eligible entity amortizing goodwill over 10 years recognizes a goodwill impairment loss four years after the related acquisition. Once the impairment loss is recognized, the eligible entity may choose to amortize the new basis in goodwill prospectively by either:

- Using the remaining life of six years
- Revising the useful life to something less than six years, if more appropriate

Limiting a revised useful life to something less than six years ensures that the cumulative useful life for the goodwill does not exceed 10 years.

3.4.1 Deferred taxes

Relevant guidance: ASC 350-20-35-73, ASC 350-20-35-76, ASC 350-20-55-23A through 55-23D, ASC 805-740-25-8, ASC 805-740-25-9 and ASC 805-740-55-10

Under the overall goodwill accounting alternative, deferred income taxes should be included in the carrying amount of the entity (or reporting unit) for those private companies subject to the provisions of ASC 740, *Income Taxes*. The inclusion of deferred income taxes in the carrying amount is *not* dependent on whether the fair value of the entity (or reporting unit) is measured assuming a taxable or nontaxable transaction.

When a private company measures a goodwill impairment loss, it should consider how the deferred tax effects of that impairment affect the amount of impairment loss that should be recognized (as applicable). As discussed in Section 11.4.5 of our business combinations guide, a deferred tax liability is not recognized when tax-deductible goodwill is less than goodwill for book purposes, but a deferred tax asset is recognized when tax-deductible goodwill is more than goodwill for book purposes. Because goodwill is a residual, determining the amount of the deferred tax asset to be recognized in this situation is not as simple as taking the difference in the tax and book bases of goodwill and multiplying it by the appropriate tax rate.

Consider a situation in which a private company that has elected the overall goodwill accounting alternative (and to test goodwill at the entity level) experiences a triggering event that requires it to test its goodwill for impairment. The carrying amount of the entity prior to measuring any goodwill impairment loss is $2,000 and its fair value is $1,800. Included in the entity's carrying amount is $800 of goodwill (all of which is tax deductible) and a $400 deferred tax asset related to the excess of the tax-deductible goodwill over the goodwill for book purposes. Under the overall goodwill accounting alternative, the private company preliminarily determines that an impairment loss of $200 should be recognized. The tax effects of that impairment loss (assuming a 30% tax rate) would increase the deferred tax asset by $60 ($200 additional basis difference x 30%) because recognition of the impairment for book purposes, but not for tax purposes, increases the amount by which tax-deductible goodwill exceeds goodwill for book purposes. Reducing goodwill by $200 and increasing deferred tax assets by $60 would result in an adjusted carrying amount for the entity of $1,860 ($2,000 – $200 + $60), which is still above the entity's fair value of $1,800, indicating a larger impairment loss should be recognized. A simultaneous equation, such as the following one in ASC 805-740-55-10, may be used to calculate the additional deferred tax asset that should be recognized due to the impairment loss, and ultimately, the amount of loss that should be recognized for book purposes:

$$\left(Tax\ Rate \div (1 - Tax\ Rate)\right) \times Preliminary\ Temporary\ Difference = Deferred\ Tax\ Asset$$

Using this equation, the additional deferred tax asset that should be recognized related to the impairment loss is $86 ([30% ÷ (1 – 30%)] x $200), which results in a final impairment loss to be recognized of $286 ($200 + $86). To prove out the accuracy of these amounts, the tax effects of the increase in the amount by which the tax-deductible goodwill exceeds the adjusted amount of goodwill ($286 x 30% = $86) should be the same as the additional deferred tax asset recognized as a result of the impairment calculated using the simultaneous equation ($86).

3.5 Sequencing of impairment testing

Relevant guidance: ASC 350-20-35-79, ASC 350-20-35-80, ASC 350-20-35-85(a), ASC 360-10-35-21, ASC 360-10-35-37 and ASC 360-10-35-39

If other assets need to be tested for impairment at the same time as goodwill (because other applicable guidance in the Codification requires those assets to be tested for impairment), those other assets should be tested for impairment before goodwill is tested (except for long-lived assets and assets groups that meet the held-for-sale criteria in ASC 360-10-45-9 through 45-11). For example, a triggering event that gives rise to testing goodwill for impairment under the overall goodwill accounting alternative may also result in the eligible entity having to test property, plant and equipment for impairment in accordance with ASC 360-10, *Property, Plant, and Equipment – Overall*. In that situation, the property, plant and equipment should be tested for impairment, and any necessary impairment loss recognized, before the goodwill is tested for impairment. Given the implications of this guidance, eligible entities should carefully consider whether the triggering event giving rise to the goodwill impairment test causes other assets of the entity (or reporting unit) (e.g., accounts receivable; inventory; equity method investments; intangible assets; property, plant and equipment) to be tested for impairment.

It is important to keep in mind that electing the goodwill impairment triggering event alternative (see Section 4) does not affect the requirements in ASC 360-10 to:

- Perform a triggering event impairment analysis for assets within the scope of ASC 360-10 by considering events that occurred throughout the reporting period and not just those still in existence as of the end of the reporting period
- Perform any resulting impairment test on the date the triggering event occurred and not as of the end of the reporting period

3.6 Derecognition

Relevant guidance: ASC 350-20-35-85(b) and ASC 350-20-40-1 through 40-9

Under the overall goodwill accounting alternative, when part of an eligible entity is going to be disposed of, consideration should be given to whether any goodwill should be allocated to that part. If the part being disposed of meets the definition of a business, goodwill should be allocated to it using a reasonable and rational approach. The definition of a business used for this purpose is the same one used to determine whether a business was acquired (see Section 4.1 of our business combinations guide). When goodwill is allocated to a business to be disposed of, the allocated goodwill factors into the amount of gain or loss recognized upon disposal. If the part of the eligible entity being disposed of does not meet the definition of a business, goodwill should not be allocated to it.

When the eligible entity tests goodwill for impairment at the reporting unit level and the business being disposed of is only part of a reporting unit, ASC 350-20-40-1 through 40-6 should be referred to for guidance about what constitutes a reasonable and rational approach to allocating goodwill to the business. Given that this guidance discusses allocation of an impairment loss to part of a whole reporting unit, we believe it should also be referred to for purposes of understanding what would be appropriate for purposes of allocating an impairment loss to part of a whole entity when impairment testing is performed at that level.

It is important to keep in mind that electing the goodwill impairment triggering event alternative (see Section 4) does not affect the impairment testing requirements related to the goodwill that remains when an entity only allocates a portion of the goodwill to a business or nonprofit activity to be disposed of.

3.7 Presentation

Relevant guidance: ASC 350-20-45-5 through 45-7

An eligible entity that elects the overall goodwill accounting alternative must present goodwill net of accumulated amortization as a separate line item on its balance sheet. Income statement charges related to goodwill (i.e., amortization and impairment) should be included in income from continuing operations, unless the goodwill relates to a discontinued operation, in which case the charges (net of tax) should be included in the results from discontinued operations. For those amounts included in income from continuing operations, there is no specific requirement to present them as a separate line item or within a specific line item.

For additional information about discontinued operations, refer to our white paper, Discontinued operations: Identification, presentation and disclosure.

3.8 Disclosure

Relevant guidance: ASC 235-10-50-1, ASC 350-20-50-1 through 50-3A and ASC 350-20-50-4 through 50-7

An eligible entity's policy related to its accounting for goodwill should be disclosed in accordance with ASC 235-10-50-1.

When an eligible entity elects the overall goodwill accounting alternative, it is required to provide many of the same disclosures required under U.S. GAAP applicable to PBEs and other entities that have not elected the alternative. However, some incremental disclosure requirements also apply. For example, the eligible entity should disclose information related to the amortization of goodwill, including accumulated amortization, total amortization expense and the weighted-average amortization period for goodwill in total, as well as for each major business combination (or major acquisition by a not-for-profit entity). Other disclosures related to goodwill and goodwill impairment losses also apply. Refer to ASC 350-20-50-4 through 50-7 for all of the disclosures required when an eligible entity elects the overall goodwill accounting alternative.

3.9 Effective date and transition

Relevant guidance: ASC 350-20-65-2

An eligible entity is permitted to make a first-time election to apply the overall goodwill accounting alternative at any time without having to perform a preferability assessment (as otherwise required by ASC 250). Eligible entities that elect the overall goodwill accounting alternative should apply it prospectively to existing goodwill as of the beginning of the fiscal year of adoption and new goodwill recognized thereafter. For example, if an eligible entity decides to first elect the overall goodwill accounting alternative in its 20X1 calendar-year-end financial statements, it would adopt the alternative as of January 1, 20X1. As such, amortization of any goodwill in existence on January 1, 20X1, starts on that date (and, absent any derecognition events, a full year of amortization expense should be recognized on that goodwill in 20X1), and amortization of any new goodwill related to acquisitions in 20X1 should begin on the acquisition date of the related business combination. In addition, for goodwill that exists as of the beginning of the fiscal year of adoption, an eligible entity can default to amortizing it over a useful life of 10 years (without justification) on a straight-line basis, or it can choose to identify and use a shorter useful life if it can demonstrate that the shorter life is more appropriate.

4. Goodwill impairment triggering event alternative

4.1 Nature and implications of the alternative

Relevant guidance: ASC 350-20-35-66, ASC 350-20-35-84, ASC 350-20-35-86, ASC 350-20-55-27 through 55-29 and paragraphs BC28 through BC30 of ASU 2021-03

Under the goodwill impairment triggering event alternative, an eligible entity performs the goodwill impairment triggering event analysis required by ASC 350-20-35-30 or ASC 350-20-35-66 as of the end of each reporting period, whether an interim or annual reporting period, instead of throughout the reporting period (see Section 3.3 for information about triggering events). In addition, any goodwill impairment test resulting from the related triggering event analysis is performed as of the end of the reporting period, instead of the date the triggering event occurred.

The FASB did not include any guidance in the ASC on what constitutes a reporting period or how the nature of the information reported by the eligible entity affects the way the alternative is applied (i.e., does a reporting period exist only when what the entity reports under U.S. GAAP is a full set of financial statements [including footnotes] or does a reporting period exist any time what the entity reports under U.S. GAAP includes financial information that would be affected by a goodwill impairment [e.g., goodwill, total assets, net income]). However, the FASB did include the following in the basis for conclusions of ASU 2021-03:

- In paragraph BC28, an acknowledgment that many entities report some level of financial information with an indication that it complies with the recognition and measurement principles under U.S. GAAP on an interim basis for various reasons (e.g., debt covenant compliance, regulatory requirements)
- In paragraphs BC29 and BC30, observations that any time an entity reports in compliance with U.S. GAAP, it should be following the guidance in ASC 350-20, which requires the evaluation of interim goodwill impairment triggering events when interim financial information is reported
- In paragraph BC30, an indication "…that it would be misleading to allow entities that provide interim financial information to delay evaluating goodwill for impairment until the end of the annual reporting period"

During the Private Company Council meeting on April 20, 2021, the FASB staff clarified the following related to ASU 2021-03:

- The ASU does not define *reporting date*, nor is it a term already defined in U.S. GAAP.
- Management should continue to determine the entity's reporting dates based on when it reports under U.S. GAAP. In other words, this is not a new determination, and the preexisting determination made by management is not affected by the ASU.
- Reporting under U.S. GAAP encompasses more than just issuing a complete set of financial statements (including the notes to the financial statements). For example, issuing only a balance sheet prepared in accordance with U.S. GAAP should be considered reporting under U.S. GAAP for purposes of the ASU.

Based on the totality of guidance included in the ASC and ASU 2021-03, as well as the FASB staff's clarifications on April 20, 2021, we believe the implications of an eligible entity electing the goodwill impairment triggering event alternative are as follows:

- If the entity reports financial information on an interim basis that would be affected by goodwill impairment (e.g., goodwill, total assets, net income), and that financial information is in compliance with the recognition and measurement principles under U.S. GAAP, it would perform its goodwill impairment triggering event analysis (and any resulting impairment test) as of the interim reporting date. In other words, the entity would not be allowed to wait and perform its goodwill impairment triggering event analysis (and any resulting impairment test) as of its annual reporting date. The benefit of the goodwill impairment triggering event alternative in this situation is that the entity is able to perform the goodwill impairment triggering event analysis (and any resulting impairment test) as of the interim reporting date instead of performing that analysis throughout the interim reporting period (and any resulting impairment test as of the date during the interim reporting period on which a triggering event occurred).

- If the entity *only* reports financial information on an annual basis that would be affected by goodwill impairment, and that information is in compliance with the recognition and measurement principles under U.S. GAAP, it would perform its goodwill impairment triggering event analysis (and any resulting impairment test) as of its annual reporting date. The benefit of the goodwill impairment triggering event alternative in this situation is that the entity is able to perform the goodwill impairment triggering event analysis (and any resulting impairment test) as of the annual reporting date instead of performing the analysis throughout the annual reporting period (and any resulting impairment test as of the date or dates during the annual reporting period on which triggering events occurred).

Given the implications to the benefits provided from electing the goodwill impairment triggering event alternative, an eligible entity should carefully consider whether the financial information it reports on an interim basis is prepared in compliance with the recognition and measurement principles under U.S. GAAP.

A question may arise with respect to the effects of an eligible entity increasing the frequency with which it reports financial information affected by goodwill impairment under U.S. GAAP from reporting such information on an annual basis to reporting such information on an interim and annual basis. For example, assume a private company with a calendar year end elects the goodwill impairment triggering event alternative for 20X1, and that the only financial information reported under U.S. GAAP by the private company related to 20X1 was its annual financial statements, which were issued before March 31, 20X2. Also assume that starting with the first quarter of 20X2, the private company is required to report total assets and net income under U.S. GAAP on a quarterly basis to its lender in connection with changes made to a preexisting debt agreement in the first quarter of 20X2. In connection with its interim reporting for the first quarter of 20X2, the private company performs its goodwill impairment triggering event analysis (and any resulting impairment test) as of March 31, 20X2. Based on the guidance in ASC 350-20-35-86, the private company does not retroactively perform a triggering event impairment analysis as of March 31, 20X1 for comparative purposes because the private company has already issued its financial statements for 20X1.

4.2 Disclosures

Relevant guidance: ASC 235-10-50-1 and ASC 350-20-50-1 through ASC 350-20-50-7

If an eligible entity elects the goodwill impairment triggering event alternative, that election should be disclosed in accordance with ASC 235-10-50-1, in addition to the information otherwise required to be disclosed by ASC 350-20-50-1 through ASC 350-20-50-7.

4.3 Effective date and transition

Relevant guidance: ASC 350-20-65-4

The goodwill impairment triggering event alternative was effective for fiscal years beginning after December 15, 2019. If an eligible entity did not elect the goodwill impairment triggering event alternative on or before its effective date, it may use an unconditional one-time election to adopt the alternative after the effective date without assessing preferability under ASC 250.

While the goodwill impairment triggering event alternative should be applied prospectively, it should be applied as of the beginning of the interim or annual period for financial statements that have not yet been issued or made available for issuance in the year of adoption. However, the goodwill impairment triggering event alternative should not be applied as of the beginning of the year of adoption if financial statements for interim periods within that year have already been issued or made available for issuance.

The following are examples of how the effective date and transition guidance should be applied by an eligible entity that has elected the overall goodwill accounting alternative (and, therefore, only tests goodwill for impairment upon the occurrence of a triggering event) and decides to elect the goodwill impairment triggering event alternative in September 20X1 for its December 31, 20X1 annual financial statements:

- **The entity has a calendar year end and reports under U.S. GAAP to its lender on a quarterly basis 45 days after the quarter end.** If the entity issued a complete set of interim financial statements (which includes the notes to the financial statements) each time it reported to the lender for the first and second quarters of 20X1, it does not reperform its goodwill impairment triggering event analyses (and any resulting impairment tests) for the first or second quarters as of the end of those quarters, but does perform its goodwill impairment triggering event analyses (and any resulting impairment tests) for the third and fourth quarters as of September 30, 20X1 and December 31, 20X1, respectively. Conversely, if the entity did not issue a complete set of interim financial statements each time it reported to the lender for the first and second quarters of 20X1, it does reperform its goodwill impairment triggering event analyses (and any resulting impairment tests) for the first and second quarters as of the end of those quarters and also performs its goodwill impairment triggering event analyses (and resulting impairment tests) for the third and fourth quarters as of September 30, 20X1, and December 31, 20X1, respectively.
- **The entity has a calendar year end and does not report under U.S. GAAP except on an annual basis.** Because the entity has not reported under U.S. GAAP on an interim basis during 20X1, it performs the goodwill impairment triggering event analysis (and any resulting impairment test) for the 20X1 annual reporting period as of December 31, 20X1.

5. Considerations related to a private company's election of the goodwill alternatives

Relevant guidance: ASC 250-10-45-5 and ASC 250-10-45-9

Before electing one or both of the goodwill alternatives, a private company should carefully consider whether doing so makes sense in its facts and circumstances. For example, many of the anticipated benefits resulting from election of the goodwill alternatives could be negated or offset if there is a reasonable possibility that the entity will go public or be acquired by a PBE in the future. If a private company goes public or is acquired by a PBE after it has elected one or both of the goodwill alternatives, it would have to discontinue the elections and retrospectively apply U.S. GAAP applicable to PBEs. In other words, the private company would have to retrospectively undo the accounting under the goodwill alternatives. While ASC 250 provides relief to retrospective application of an accounting change when it is impracticable to do so, we believe electing to apply the goodwill guidance in U.S. GAAP applicable to PBEs, although potentially challenging and costly, would rarely, if ever, be deemed impracticable.

To illustrate the consequences of discontinuing the election to apply the overall goodwill accounting alternative, consider a situation in which a private company goes public three years after electing the alternative. To prepare historical financial statements to be included in its filings with the SEC, the private company will have to reverse goodwill amortization during the three years it applied the alternative and retroactively test its goodwill for impairment in each of those three years. While the reversal of goodwill amortization may not be time consuming, retroactive performance of goodwill impairment tests at a reporting unit level for those three years would likely be quite time consuming. In addition, the benefit of reduced financial reporting costs as a result of electing the overall goodwill accounting alternative would be negated by the costs incurred to retroactively test goodwill for impairment. If there is a reasonable possibility that a private company may become a PBE in the future, and it still wants to adopt the overall goodwill accounting alternative, it may want to elect to test goodwill at a reporting unit level under the alternative to help simplify the potential transition.

To illustrate the consequences of discontinuing the election to apply the goodwill impairment triggering event alternative, consider a situation in which a private company with a calendar year end goes public three years after electing both the overall goodwill accounting alternative and the goodwill impairment triggering event alternative. Prior to going public, the private company *only* ever issued financial information prepared in accordance with U.S. GAAP on an annual basis. As a result, prior to going public, it performed its goodwill impairment triggering event analyses (and any resulting impairment tests) as of its annual reporting dates. In the first year after the private company elected the goodwill impairment triggering event alternative, a triggering event occurred in its first quarter, but by the private company's annual reporting date, the triggering event had corrected itself, and no other triggering events existed. As a result, the private company did not identify any triggering events as of its annual reporting date in that first year and did not perform a goodwill impairment test in that first year (given that it had adopted both of the goodwill alternatives). In undoing its election of the goodwill impairment triggering event alternative upon going public (see the previous paragraph related to undoing the decision to elect the overall goodwill accounting alternative), the private company would have to go back and perform the goodwill impairment triggering event analysis by considering events that occurred throughout its first quarter, which would result in the identification of a triggering event for which the resulting impairment test would be performed on the date the triggering event occurred. Any benefit obtained by the private company in electing the goodwill impairment triggering event alternative would be negated by the costs incurred to retroactively test goodwill for impairment in that situation. This example illustrates the difficulty that may be encountered in unwinding the application of the goodwill impairment triggering event alternative, which is particularly pronounced given that the entity previously only reported under U.S. GAAP on an annual basis. While difficulties would exist in unwinding the application of the goodwill impairment triggering event alternative if the entity previously reported under U.S. GAAP on an interim basis, those difficulties likely would be less pronounced.

A private company should discuss the effects of electing the goodwill alternatives with the users of its financial statements to understand whether the private company's election of the alternative is acceptable to those users. The users who should be considered in this regard include investors, lenders and regulators, among others. Thoughtful consideration also should be given to upcoming or potential changes in the users of its financial statements and the willingness of any potential new users of the financial statements to accept financial statements in which one or both the goodwill alternatives has been applied.

RSM