



## THE POWER OF BEING UNDERSTOOD

## U.S. GAAP VS. IFRS: IMPAIRMENT OF LONG-LIVED ASSETS AT-A-GLANCE

*Increasing globalization coupled with related regulations continues to put pressure on moving towards a common global accounting framework – International Financial Reporting Standards (IFRS). Currently, more than 100 countries use IFRS, so if your business goals include global expansion, it is critical to educate yourself about the impact of IFRS on your financial reporting processes and business now. To gain a better understanding of what IFRS means for your organization, we have prepared a series of comparisons dedicated to highlighting significant differences between IFRS and U.S. generally accepted accounting principles (GAAP). This particular comparison focuses on the significant differences between U.S. GAAP and IFRS when accounting for the impairment of long-lived assets. For other comparisons available in this series, refer to our [U.S. GAAP vs. IFRS comparisons at-a-glance series](#).*

*A discussion about U.S. GAAP and IFRS would not be complete without mentioning the status of the Securities and Exchange Commission's (SEC) activities focused on determining whether the application of IFRS by U.S. registrants should be required or allowed. While the SEC has not made any final decisions with respect to use of IFRS by U.S. registrants, its activities are ongoing. For more information, refer to our [IFRS Resource Center](#).*

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 (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 FASB ASC Topic 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*.

The guidance for *when* to test long-lived assets for impairment is similar under both U.S. GAAP and IFRS. Long-lived assets to be held and used (which exclude goodwill and other indefinite-lived intangible assets) are required to be tested for impairment when an indicator of impairment exists. Furthermore, the indicators of impairment are similar under both U.S. GAAP and IFRS. With respect to goodwill and other indefinite-lived intangible assets, both U.S. GAAP and IFRS require such assets be subjected to impairment tests at least annually, and more frequently when impairment indicators exist.

While there are some similarities between U.S. GAAP and IFRS with respect to accounting for the impairment of long-lived assets, there are also a number of differences. 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 "component").	Goodwill is allocated to a cash-generating unit (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	<p>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 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>	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 greater than its recoverable amount, an impairment loss is recognized. The "recoverable amount" 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).
Measurement of impairment loss	The impairment loss is the amount by which the carrying amount of goodwill exceeds its implied fair value in the reporting unit.	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).
Reversal of impairment loss	Prohibited.	Prohibited.

## IMPAIRMENT OF INDEFINITE-LIVED INTANGIBLE ASSETS

	U.S. GAAP	IFRS
<b>Relevant guidance</b>	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 estimate the fair value of an indefinite-lived intangible asset if its qualitative assessment indicates it is "more likely than not" that the asset is impaired.</p>	An impairment loss is recognized for the amount by which the carrying value of the intangible asset exceeds its recoverable amount. The "recoverable amount" 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].)
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 up to the new recoverable amount, subject to a ceiling of the initial carrying amount.

# IMPAIRMENT OF LONG-LIVED ASSETS TO BE HELD AND USED

	U.S. GAAP	IFRS
<b>Relevant guidance</b>	ASC 360	IAS 36
<b>Unit of account</b>	The unit of account is an asset group, which is defined under U.S. GAAP 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.	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.
<b>Recognition of impairment loss</b>	An impairment loss is recognized when the carrying amount is greater than both the undiscounted cash flows (recoverability test) and fair value.	An impairment loss is recognized when the carrying amount is greater than the recoverable amount. The “recoverable amount” 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].)
<b>Measurement of impairment loss</b>	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.
<b>Reversal of impairment loss</b>	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 up to the new recoverable amount, subject to a ceiling of the initial carrying amount adjusted for depreciation.

These are the significant differences between U.S. GAAP and IFRS with respect 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. Refer to our [Snapshot: Accounting for the impairment of goodwill and other long-lived assets](#) for additional discussion of U.S. GAAP. Refer to our [U.S. GAAP vs. IFRS comparisons at-a-glance series](#) for more comparisons highlighting other significant differences between U.S. GAAP and IFRS.

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