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# FASB Provides Private Companies and Not-for-Profit Entities With an Accounting Alternative for Evaluating Goodwill Impairment Triggering Events

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## Background

In March 2021, the FASB issued ASU 2021-03,[1] which allows private companies and not-for-profit entities (NFPs) to use an accounting alternative for performing the goodwill impairment triggering event evaluation (the "goodwill impairment triggering event alternative"). Specifically, the ASU gives a private company or NFP the option to perform the goodwill impairment triggering event evaluation required by ASC 350-20,[2] as well as any resulting goodwill impairment test, as of the end of the entity's interim or annual reporting period, as applicable.

The current guidance in ASC 350-20 requires an entity to monitor goodwill for triggering events during the reporting period. If it is more likely than not that goodwill is impaired, the entity must then test goodwill for impairment. ASU 2021-03 is intended to address stakeholders' concerns related to the costs and complexity of monitoring goodwill for triggering events, and possibly performing goodwill impairment tests, during the reporting period rather than at the end of that period. The option provided by the ASU applies only to monitoring goodwill for impairment triggering events; it does not change existing

[1] FASB Accounting Standards Update (ASU) No. 2021-03, *Accounting Alternative for Evaluating Triggering Events*.
[2] For titles of *FASB Accounting Standards Codification* (ASC) references, see Deloitte's "Titles of Topics and Subtopics in the *FASB Accounting Standards Codification*."

requirements for private companies and NFPs to monitor other assets (e.g., long-lived assets and indefinite-lived intangible assets) for triggering events, and perform any required impairment tests, during the reporting period.

## Key Provisions of the ASU

ASU 2021-03 provides private companies and NFPs the option of only assessing as of the end of each reporting period whether a goodwill impairment triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. Therefore, such entities would only need to perform the goodwill impairment triggering event evaluation as of the end of an interim or annual reporting period, as applicable.

Entities that have elected the alternative for amortizing goodwill and elect the goodwill impairment triggering event alternative would only evaluate goodwill for impairment as of each reporting date. However, entities that elect the goodwill impairment triggering event alternative are not required to, or precluded from, adopting the alternative for amortizing goodwill (and vice versa). As a result, if an entity has not elected the alternative for amortizing goodwill and performs its annual goodwill impairment test on a date other than the end of the reporting period, the entity must still monitor goodwill for impairment triggering events as of each reporting date between annual tests to determine whether it must perform an additional goodwill impairment test.

The ASU provides the following example to illustrate the application of the goodwill impairment triggering event alternative:

**ASC 350-20**

***Example 1: Illustration of the Accounting Alternative for a Goodwill Impairment Triggering Event Evaluation***

**55-27** This Example illustrates the effect of the accounting alternative for a goodwill impairment triggering event evaluation on the impairment conclusion for an entity within the scope of paragraph 350-20-15-4A. This Example is not indicative of every outcome that may occur because facts and circumstances surrounding triggering events are unique to each entity.

**55-28** Entity A adopted the accounting alternative for a goodwill impairment triggering event evaluation and performs a goodwill impairment triggering event evaluation only as of the end of each reporting period. Entity A also adopted the accounting alternative for amortizing goodwill in accordance with paragraph 350-20-05-5 and elected to perform an impairment test for goodwill at the entity level upon the occurrence of a triggering event only. During the second quarter, Entity A lost a significant customer. However, Entity A was able to replace that customer late in the third quarter of the same year, and the entity's operations returned to previously forecasted levels by the annual reporting date.

**55-29** If Entity A reports only annually, then it would evaluate the facts and circumstances as of the annual reporting date and may conclude that no triggering event exists; therefore, no further goodwill impairment testing would be necessary. Alternatively, if Entity A reports on both a quarterly basis and an annual basis, then it would evaluate the facts and circumstances as of the end of each quarter and may conclude that the loss of the significant customer represents a goodwill impairment triggering event requiring additional impairment testing as of the end of the second quarter.

In addition, the ASU requires no incremental disclosures beyond the existing requirements in ASC 350-20 and ASC 235, the latter of which requires an entity to disclose its significant accounting policies.

## Entities That May Become Public Business Entities

When a private entity becomes a public business entity (PBE), the entity is required to reverse the effect of any private-company accounting alternatives in its historical financial statements. Therefore, private companies that may later become PBEs should consider the potential future costs before electing the goodwill impairment triggering event alternative in ASU 2021-03 or any other private-company accounting alternative, as noted in paragraph BC32 of the ASU:

> The Board acknowledges that reversing the accounting alternative would pose a challenge if a private company adopting the alternative wished to become a public business entity. To reverse the effects, an entity would need to go back to the date of adoption of the accounting alternative and evaluate (without hindsight) whether there were triggering events during the reporting period, including interim reporting periods, that would have resulted in a goodwill impairment and, if so, measure that impairment. However, those burdens are likely no more significant than would be the case for a private company that elected the alternative to amortize goodwill that subsequently elected to go public. The Board cautions entities that may eventually become public business entities to consider the potential future costs before electing this or any other alternative.

## Effective Date and Transition

ASU 2021-03 is effective for private companies and NFPs for fiscal years beginning after December 15, 2019. Entities may early adopt the ASU's provisions for interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. Entities may not retroactively adopt the ASU's amendments for interim financial statements that have already been issued.

Entities must apply the ASU's provisions prospectively. Further, they have an unconditional one-time option to adopt the goodwill impairment triggering event alternative prospectively after the ASU's effective date without assessing preferability under ASC 250.

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