



US GAAP-IFRS COMPARISON SERIES: IMPAIRMENT OF GOODWILL, TANGIBLE AND INTANGIBLE ASSETS

INTERNATIONAL FINANCIAL REPORTING BULLETIN

INTRODUCTION

Guidance related to assessing and recording impairment of assets is found in IAS 36 *Impairment of Assets* and in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* for entities complying with international accounting standards, and in ASC 350 *Intangibles - Goodwill and Other* and ASC 360 *Property, Plant and Equipment* for entities complying with US accounting standards.

Below is a comparison of the impairment models under the US GAAP and IFRS standards related to goodwill, indefinite-lived intangible assets and tangible and finite-lived intangible assets.

The guidance for international standards only covers IFRS as issued by the IASB and does not include IFRS for SMEs or any jurisdictional versions of IFRS.

This document assumes the adoption of ASU 2017-04 - *Intangibles - Goodwill and Other* (Topic 350): *Simplifying the Test for Goodwill Impairment*.

GOODWILL	
US GAAP	IFRS
Goodwill is allocated to reporting units (“RU”).	Goodwill is allocated to cash generating units (“CGU”).
A RU is the same as an operating segment or one level below (i.e., a component).	A CGU is the smallest group of assets that generates independent cash flows and is not larger than an operating segment.
Goodwill must be tested for impairment at least annually.	All goodwill must be tested for impairment at least annually.
Goodwill is tested more frequently than annually if events or circumstances indicate an impairment may have occurred.	Goodwill is tested more frequently than annually if indicators of impairment exist. The indicators are similar to US GAAP, but not identical. For example, IFRS considers an increase in market rates that is likely to impact discount rates as a potential indicator of impairment while US GAAP does not.
The annual impairment test may be either a quantitative or a qualitative test.	The annual impairment test must be quantitative. IAS 36 requires an annual quantitative test for both goodwill and indefinite-lived intangible assets, however paragraphs 24 and 99 permit the carryforward of a prior year test if specific criteria are met.
Entities can choose to use a qualitative test for some RU and not for others and the policy does not need to be consistently applied.	
If an entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of a RU is less than the carrying value it must perform a quantitative test to measure the amount of impairment. Otherwise the entity does not need to perform a quantitative test.	

GOODWILL

The quantitative test compares the fair value of a RU to the carrying value. If the carrying value exceeds the fair value the excess is recorded as a loss, limited to the total amount of goodwill (see below for testing of other assets in RU.)

If the fair value exceeds the carrying value, the goodwill is not impaired.

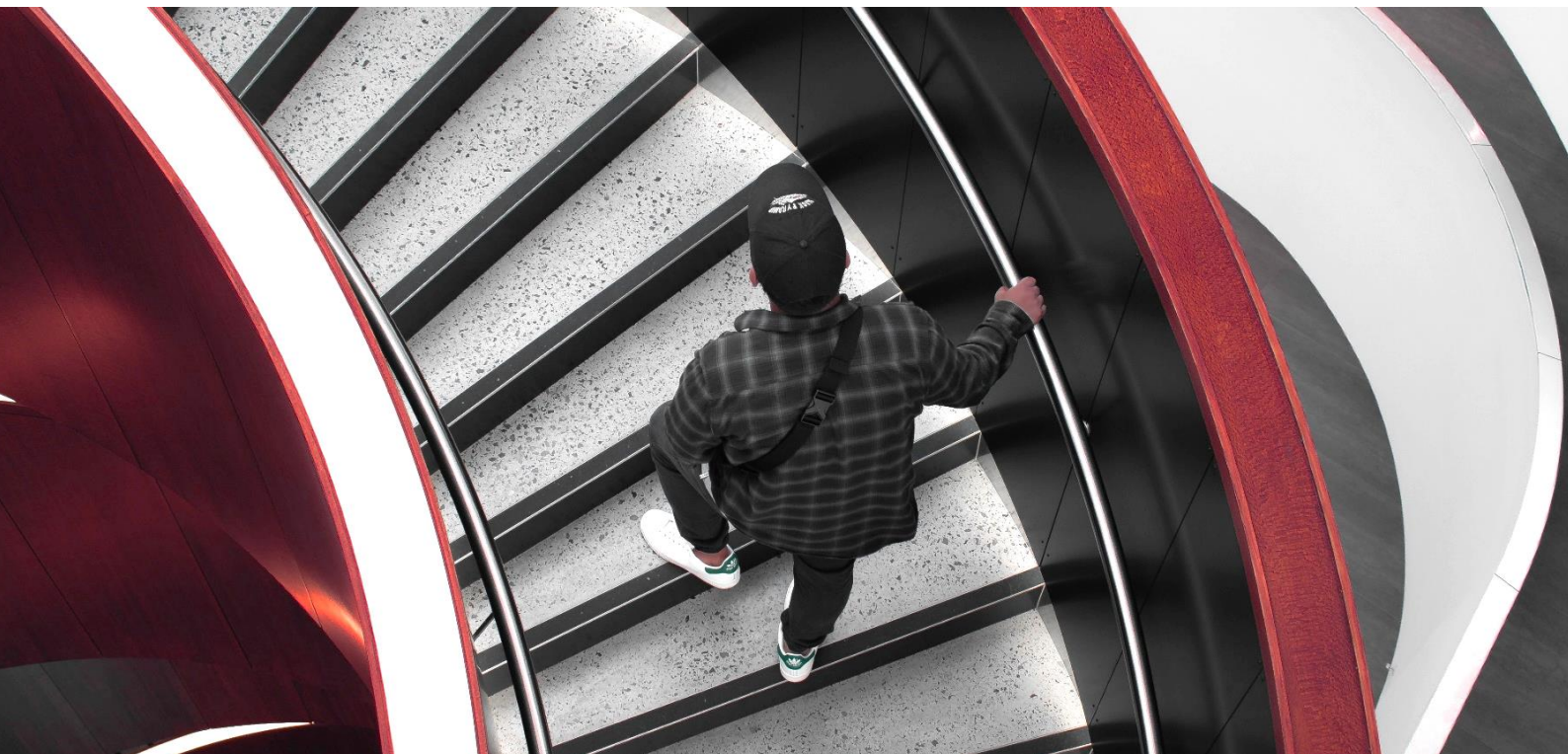
The quantitative test compares the carrying value of the CGU with the recoverable amount of the CGU. If the recoverable amount is less than the carrying amount an impairment loss is recorded. The impairment loss first reduces goodwill and then is allocated to other assets of the CGU (see below.) If the recoverable amount exceeds the carrying amount the CGU is not impaired.

The recoverable amount of an asset or CGU is the higher of its fair value less costs of disposal or value in use which is the present value of future cash flows expected to be derived from the asset or CGU.

Private Company Goodwill Alternative

Under the goodwill alternative, private companies and not-for-profit entities can elect to amortize goodwill on a straight-line basis over 10 years (or over a shorter period if the entity demonstrates that another life is more appropriate). Entities that elect this alternative are required to test goodwill for impairment upon the occurrence of a triggering event. Further, under this alternative, entities may elect to perform the impairment test at the entity-wide level or at the reporting unit level.

No private company alternative.



INDEFINITE-LIVED INTANGIBLE ASSETS

An indefinite-lived intangible asset is tested annually for impairment or more frequently if events or circumstances indicate an impairment may have occurred.

An indefinite-lived intangible asset is tested annually for impairment or more frequently if indicators of impairment exist.

Acquired research and development intangible assets are considered indefinite-lived until completion or abandonment of research and development activities.

An intangible asset not yet available for use is tested for impairment in the same manner as an indefinite-lived intangible asset until it is available for use.

The annual impairment test for an indefinite-lived intangible asset may be either a qualitative or quantitative test.

The annual impairment test for an indefinite-lived intangible asset must be a quantitative test.

If an entity determines, based on its qualitative assessment, that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than the carrying value it must perform a quantitative test to measure the amount of impairment. Otherwise the entity does not need to perform a quantitative test.

The quantitative impairment test compares the fair value of the asset with the carrying amount. If the carrying amount exceeds the fair value, then an impairment loss equal to that excess is recorded.

The impairment test compares the carrying amount to the recoverable amount (defined above). If the carrying amount exceeds the recoverable amount, then an impairment loss is recorded.

Indefinite-lived intangible assets are generally assessed for impairment individually. Separate indefinite-lived intangible assets can only be combined for purposes of the impairment test if they essentially operate as a single asset and are essentially inseparable. Indefinite-lived intangible assets cannot be combined with goodwill or finite-lived assets for impairment testing.

The recoverable amount is determined for an individual asset unless the asset does not generate cash flows that are largely independent of other assets or asset groups in which case the recoverable amount is determined at the CGU level. An impairment determined at the CGU level is first allocated to any goodwill in the CGU and then to other assets in the CGU pro rata on the basis of their carrying amount limited to the higher of fair value less costs of disposal, value in use, or zero for the individual assets.

TANGIBLE AND FINITE-LIVED INTANGIBLE ASSETS - HELD AND USED

US GAAP

IFRS

Tangible and finite-lived intangible assets are tested at the asset group level. An asset group is the lowest level for which identifiable cash flows are largely independent.

Tangible and finite-lived intangible assets are tested for impairment if events or circumstances indicate the carrying amount of the asset group may not be recoverable. The test is a two-step quantitative test.

Step 1

An impairment loss on a tangible or finite-lived intangible asset is recognized if the carrying amount of the asset group is not recoverable and exceeds its fair value. The carrying amount is considered not recoverable if the sum of the undiscounted cash flows to be generated from the use and eventual disposition of the asset group is less than the carrying amount.

Step 2

If the carrying amount exceeds the undiscounted cash flows, then the carrying amount is compared to the fair value and an impairment loss is recorded for the difference between the fair value and the carrying amount.

An impairment loss only reduces the carrying amount of the long-lived assets in the asset group and it is allocated on a pro rata basis, except that the loss allocated to an individual long-lived asset shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort.

Corporate Assets

Corporate assets such as a corporate headquarters facility may not have identifiable cash flows that are largely independent of cash flows of other assets or asset groups. In those limited circumstances, the asset may be tested for impairment at the entity level.

Tangible and finite-lived intangible assets are tested at the individual asset level unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In that case, the test is carried out at the CGU level based on the same criteria for indefinite-lived intangible assets (see above).

Tangible and finite-lived intangible assets are tested for impairment when indicators of impairment exist.

An entity should assess whether there is an indication that an asset may be impaired at the end of each reporting period.

If an indicator exists, the entity needs to estimate the recoverable amount of the asset.

The test is a one-step quantitative test, similar to indefinite-lived intangible assets (see above).

Corporate Assets

Corporate assets include assets such as a head office, which do not themselves generate independent cash flows and whose carrying amount typically cannot be fully attributed to a CGU. If there is an indication that a corporate asset is impaired, its recoverable amount is determined by including it in the CGU or group of CGUs to which it relates.

ORDER OF IMPAIRMENT TESTING - HELD AND USED

US GAAP

First, test other assets (such as accounts receivable and inventory) under applicable guidance and indefinite-lived intangibles.

Second, test long-lived assets (including tangible and finite-lived intangible assets).

Third, test goodwill.

IFRS

Impairment testing starts at the lowest level. If possible, assets are tested individually. If not, they are tested at CGU level. If goodwill relates to a CGU but has not been allocated to the CGU, then the CGU is tested excluding goodwill. CGUs to which goodwill has been allocated (or the smallest group of CGUs to which goodwill or a corporate asset has been allocated) are then tested.

REVERSAL OF IMPAIRMENT

US GAAP

Reversal of impairment is not permitted.

IFRS

Impairment of assets other than goodwill may be reversed.

At each reporting period an entity needs to assess whether there are indications that an impairment, recognized in a prior period, may not still exist or may not exist at the amount previously recorded. If the impairment has decreased or no longer exists, based on the current recoverable amount, then the impairment is required to be fully or partially reversed and the reversal recognized in income or loss for the period.

TANGIBLE AND FINITE-LIVED INTANGIBLE ASSETS - HELD FOR SALE

US GAAP

A long-lived asset or disposal group that meets the held-for-sale criteria should be reported at the lower of its carrying amount or fair value less cost to sell. Any subsequent increase in the disposal group's fair value, less cost to sell, should be recognized, but not in excess of the cumulative loss previously recognized. Once classified as held for sale, depreciation and amortization should not be recorded.

Order of Impairment Testing - held for sale

First, test other assets (such as accounts receivable and inventory) under applicable guidance.

Second, test indefinite lived assets and goodwill.

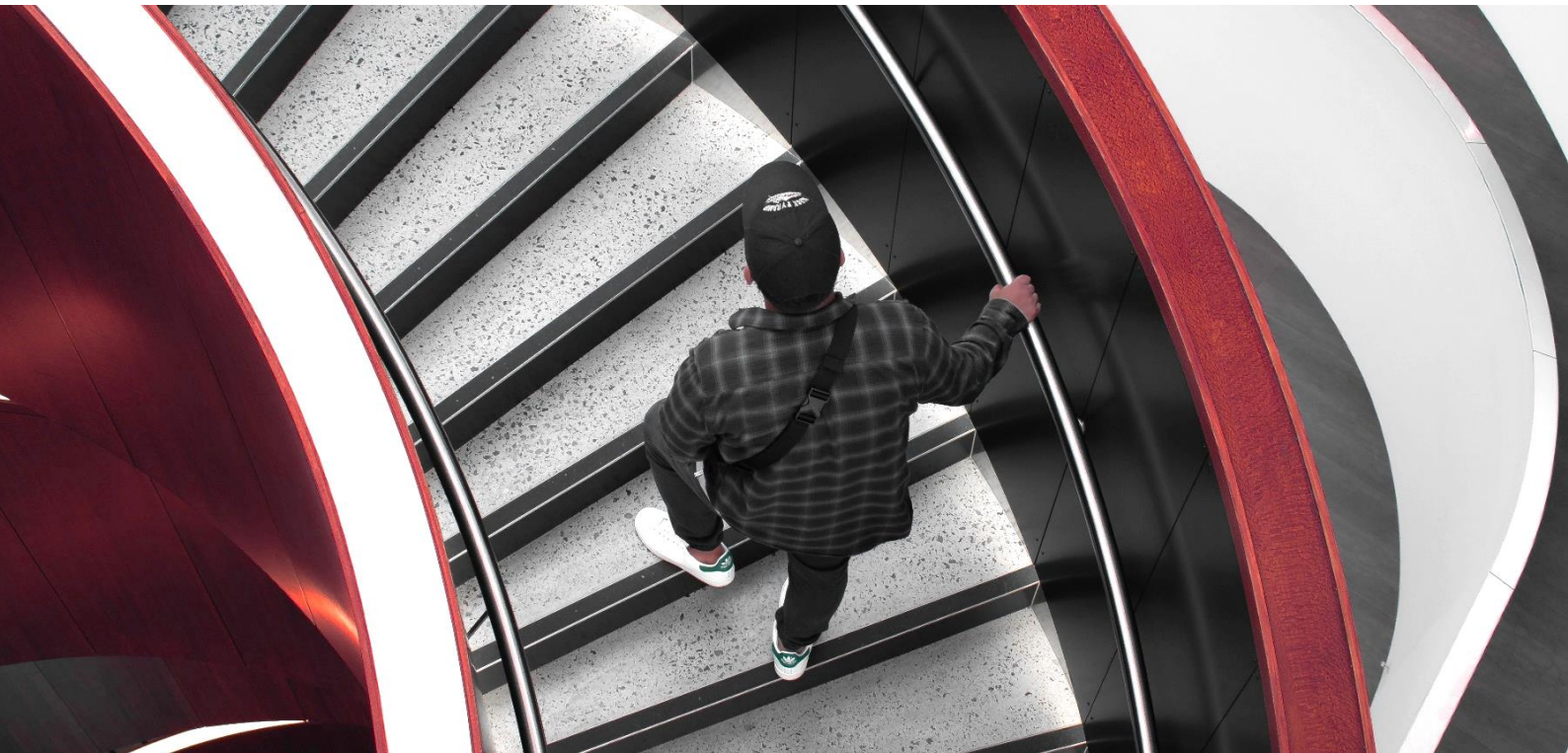
Third, test the disposal group for impairment.

IFRS

A non-current asset or disposal group that meets the held for sale recognition criteria should be measured at the lower of its carrying amount or fair value less costs to sell. Any subsequent increase in the disposal group's fair value less cost to sell should be recognized in profit or loss up to the cumulative impairment losses that have previously been recognized. Assets classified as held for sale are not amortized or depreciated.

CONCLUSION

The above discussion covers the more significant differences between US GAAP and IFRS related to the impairment of goodwill, indefinite-lived intangible assets and other long-lived assets, it is not intended to be a replacement for the review of the specific accounting literature applicable to impairment of long-lived assets or consultation with professional advisors.



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