KPMG

Private Companies

Relief from certain goodwill triggering event assessments

March 31, 2021

A new ASU provides an accounting alternative affecting the timing for evaluating goodwill impairment triggering events.

Applicability

ASU 2021-03, Accounting Alternative for Evaluating Triggering Events

Applies to private companies and not-for-profits (NFPs), including those that are conduit bond obligors.

Fast facts, impacts, actions

All entities must consider whether goodwill has been impaired if a ‘triggering event’ occurs. The impairment assessment is generally performed when the triggering event occurs, which could be different from an entity’s reporting date.

To ease the compliance burden for private companies and NFPs, the FASB issued ASU 2021-03 to provide an accounting alternative to:

— identify and assess goodwill impairment triggering events only as of each reporting date (interim or annual);

— perform any necessary goodwill impairment test using the financial information as of the reporting date (interim or annual).

This new accounting alternative may be early adopted (see Effective dates and transition) and applies regardless of whether the entity has elected to amortize goodwill.

Action: Eligible entities that have not issued (or made available to be issued) calendar year 2020 financial statements can elect the alternative for that annual period.

The new alternative does not allow entities that report GAAP interim financial information to delay the triggering event assessment to the annual reporting date. However, it does not indicate what type of interim financial information requires triggering event assessment at interim reporting dates.

The new alternative does not change the timing of triggering event assessments for other assets (e.g. property, plant and equipment, indefinite-lived intangible assets, equity method investments) or the requirements to test goodwill in other situations (e.g. upon disposal of a portion of a reporting unit).

Background

All entities have been required to test goodwill for impairment if an event occurs or circumstances change to indicate it is more likely than not that an impairment loss has been incurred (i.e. a triggering event). This means that even private companies and NFPs that have elected the goodwill amortization alternative have been required to monitor and evaluate triggering events throughout the year. When impairment testing is triggered, these entities have been required to test as of the triggering event date, which may be different than their reporting date.

The FASB received stakeholder feedback that many private companies and NFPs find it challenging to identify and evaluate triggering events and/or perform impairment tests between reporting dates. The feedback indicated this is because some private companies perform the goodwill triggering event analysis as part of their annual financial reporting process, which can make it more challenging to retrospectively evaluate triggering events that occur earlier in the year. This issue has become more apparent during the COVID-19 pandemic because of the economic uncertainty and the significant changes in facts and circumstances throughout calendar year 2020.

Triggering event accounting alternative

The FASB added the accounting alternative to address private companies' concerns about the challenges of evaluating triggering events between reporting dates. The accounting alternative, if elected, requires private companies and NFPs to assess triggering events only as of each reporting date (interim or annual), instead of during a reporting period. Further, when performing a goodwill impairment test, these entities use the financial information as of the end of the applicable reporting period.

The accounting alternative may provide relief for eligible entities that report only annually, but it does not allow an entity that reports GAAP interim financial information to delay the triggering event assessment to the annual reporting date. Eligible entities that report GAAP interim financial information are still required to evaluate triggering events as of each interim reporting date. However, they do not have to monitor and evaluate triggering events during the interim period. This means, for example, when an entity reports interim financial information for the quarter ended March 31, it determines whether an impairment test is required as of March 31 but does not have to evaluate whether an impairment test was required between January 1 and March 30.

The accounting alternative also does not change requirements to test goodwill in other situations (e.g. upon disposal of a portion of a reporting unit) or when goodwill is included in a disposal group classified as held-for-sale.

Example 1: Annual reporting only

ABC Corp. is a private company that reports financial information only on an annual basis (it has no interim reporting requirements). ABC elected the accounting alternative for amortizing goodwill and therefore performs an impairment test for goodwill only when a triggering event occurs.

ABC elects the accounting alternative for goodwill impairment triggering events. Because ABC only reports financial information annually, it does not evaluate triggering events throughout the year.

During the second quarter, ABC lost a major customer. However, it was able to replace the customer in the fourth quarter and operations returned to expected levels by year-end.

At its annual reporting date, ABC evaluates whether triggering events exist. It concludes that the facts and circumstances as of the reporting date do not indicate it is more likely than not that goodwill is impaired because it was able to recover from the loss of a significant customer. Therefore, no further impairment testing is needed.

Interim financial reporting not defined

Although the accounting alternative requires triggering event assessment as of all reporting dates (whether interim or annual), the FASB did not define what is meant by a reporting period and what level of interim financial information needs to be provided to require a triggering event assessment on an interim basis. It observed that many entities provide some level of interim financial information to their users that complies with the recognition and measurement principles of GAAP but such information may be less than a full set of GAAP-compliant financial statements with notes.

The FASB observed that entities should already be evaluating triggering events anytime they report in compliance with GAAP and the ASU should only shift the timing of when those events are evaluated to the end of the period. The FASB does not expect this ASU to change an entity's understanding of when it reports GAAP-compliant interim financial information.

Entities will need to carefully evaluate their reporting requirements (e.g. terms of lending arrangements) to determine whether their interim financial information is required to be in compliance with GAAP. For example, if debt covenants require an entity to provide a balance sheet with goodwill or information that includes amounts affected by goodwill (e.g. net income, if an impairment did exist), the entity needs to determine if it is required to comply (or elects to comply) with the recognition and measurement aspects of GAAP for that information. If it is, then it must evaluate triggering events on an interim basis, even if a full set of financial statements with disclosures is not issued.

Example 2: Interim reporting

ABC Corp. is a private company that reports financial information to its lenders on a quarterly basis. It elected the accounting alternative for amortizing goodwill and therefore performs an impairment test for goodwill only when a triggering event occurs.

ABC elects the accounting alternative for goodwill impairment triggering events. Debt covenants require ABC to provide financial information that is prepared in accordance with GAAP as of the interim reporting date, and therefore ABC must evaluate goodwill triggering events as of the end of each quarter.

During the second quarter, ABC lost a major customer. However, it was able to replace the customer in the fourth quarter and operations returned to expected levels by year-end.

ABC needs to evaluate the facts and circumstances as of the end of both the second and third quarter and may conclude it is more likely than not that an impairment has occurred.

Change in reporting frequency

The ASU states that entities applying the alternative cannot retroactively assess triggering events in interim periods for which annual financial statements have already been issued. We understand this applies when a private company or NFP has a change in reporting frequency.

For example, in Year 1 an entity reports only annually and elects the accounting alternative for goodwill impairment triggering events. In Year 2, the entity is required to report on a quarterly basis with comparative financial information. In Year 2, the entity would not need to evaluate triggering events for the comparative quarterly reporting periods because the Year 1 annual financial statements have already been issued.

However, an entity that no longer qualifies to use the accounting alternative (i.e. because it becomes a public entity) would have to retroactively assess triggering events between reporting dates (and potentially recognize additional impairment losses) to be compliant with public company requirements.

Other nonfinancial assets

The FASB considered but decided not to expand the accounting alternative to the impairment models for assets other than goodwill. Therefore, an entity electing the accounting alternative still needs to monitor and evaluate triggering events throughout the reporting period for other long-lived assets (e.g. property, plant and equipment and amortizable intangible assets) evaluated for impairment under Topic 360 and indefinite-lived intangible assets evaluated for impairment under Subtopic 350-30.

Observation: Indicators of triggering events for goodwill, long-lived assets and indefinite-lived intangible assets are similar. In some cases, when a triggering event occurs between reporting periods that requires an impairment test for those other assets, it may be more practical to perform the goodwill assessment at the same time. Therefore, entities should consider the implications of this potential outcome before electing the alternative.

Effective dates and transition

	Private companies and NFPs
Annual periods – Fiscal years beginning after	December 15, 2019
Interim periods – In year of adoption	The earliest interim period in the year of adoption for which financial statements have not been issued (or made available for issuance)
Early adoption permitted?	Yes, for interim or annual financial statements that have not been issued (or made available for issuance)

Once elected, the accounting alternative is applied prospectively from the date of adoption. Similar to other private company accounting alternatives, a private company or NFP electing to adopt this new alternative after the effective date may do so without having to demonstrate preferability. After initial adoption, any subsequent election in or out of the alternative is subject to a preferability assessment. If an entity applying the alternative subsequently becomes a public company, it will need to retrofit its financial statements to be compliant with public company requirements and retroactively assess triggering events between reporting dates (and potentially recognize additional impairment losses).

Observation: Entities that have not issued calendar year 2020 annual financial statements can elect the alternative for that annual period. However, they will need to evaluate whether there were any interim reporting dates for which triggering event assessments would still be required under the alternative.

Contributing authors

Nick Burgmeier, Emily Courter

KPMG Financial Reporting View

kpmg.com/us/frv

This newsletter is part of our Defining Issues® collection of newsletters and articles with insights and news about financial reporting and regulatory developments. Sign up here to receive news and insights delivered to your mailbox.

kpmg.com/socialmedia