



Time to Consider Goodwill Impairment?

By Gina Miller, Partner

Even in normal economic times, it is crucial for financial managers of businesses that have goodwill and other intangible assets on their books to understand the requirements of *ASC 350 Intangibles- Goodwill and Other*. The standard includes guidance on the subsequent measurement of intangible assets and goodwill. The current coronavirus (COVID-19) pandemic could affect the subsequent measurement of goodwill and the fair value of an entity.

There are several important factors to keep in mind when determining goodwill in general. Below you'll find considerations and key factors to remember during the goodwill impairment testing process.

- Goodwill is not amortized but instead tested for impairment. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. Publicly traded companies may have to consider this impairment in the quarter of a triggering event, prior to filing its 10Q.
- An entity may first assess qualitative factors to determine whether it is necessary to perform the step-two goodwill impairment test. An entity may assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. In the course of this assessment, an entity needs to assess relevant events and circumstances. Examples of such events and circumstances include the following:
 - Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates or other developments in equity and credit markets;
 - Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics, a change in the market for an entity's products or services or a regulatory or political development;
 - Cost factors such as increases in raw materials, labor or other costs that have a negative effect on earnings and cash flows;
 - Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;
 - Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers and contemplation of bankruptcy or litigation;
 - Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit or recognition of a goodwill

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- impairment loss in the financial statements of a subsidiary that is a component of a reporting unit; and
- If applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers) [*FASB's ASC 350-20-35 Subsequent Measurement*].
- Goodwill of a reporting unit shall be tested for impairment on an annual basis and between annual tests in certain circumstances. Goodwill shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

COVID Impact

Due to the COVID-19 pandemic, the current economic environment may have an adverse effect on the fair value of an entity and may be considered a triggering event that would require an entity to test for impairment of goodwill. Impacts of COVID-19 may include:

- Facility and/or store closings due to concern for public health;
- Unavailable personnel due to sickness or caretaking of family members;
- Interruptions in productions due to supply-chain interruption or forced closure;
- Inability to meet budget/forecasts;
- Reduction in stock price; and
- Additional risks due to the deterioration of the economic conditions.

Many companies are facing indications that their goodwill value has been impaired.

We Can Help

Bennett Thrasher's valuation group can help you assess the qualitative factors to determine whether an impairment test is warranted. If it is likely that fair value has been reduced below carrying value, we are also qualified to prepare the impairment analysis.

For help determining impairment or for any other valuation concerns and questions, please contact [Gina Miller](#) by calling [770.396.2200](tel:770.396.2200).