

Center for Plain English Accounting

AICPA's National A&A Resource Center

ASU 2021-03

Relief on Goodwill Impairment Triggering Event Evaluation

On March 30, 2021, the FASB issued Accounting Standards Update (ASU) 2021-03, *Intangibles—Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events*. The amendments in ASU 2021-03 provide private companies and not-for-profit (NFP) entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required in FASB *Accounting Standards Codification* (FASB ASC) 350-20, *Intangibles—Goodwill and Other—Goodwill*, as of the end of the reporting period, whether the reporting period is an interim or annual period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired.

Practice Note: The scope of ASU 2021-03 includes NFP entities that are conduit bond obligors or that otherwise meet the definition of a public entity.

Background. The issuance of ASU 2021-03 provides much-needed relief to private companies and NFP entities at a time when financial burdens are plenty and many are struggling with day-to-day operations and remote working during the pandemic. Stakeholders, including a strong effort by the PCPS Technical Issues Committee (TIC), expressed concern about the cost and complexity for entities in applying the triggering event analysis at a date between reporting dates for entities that report only annual financial statements. Performing the existing goodwill triggering event evaluation became especially difficult due to the COVID pandemic. Particularly difficult for entities is the determination of whether there was a triggering event during the year and, if so, the precise date on which the triggering event occurred.

Alternative Available for Unissued December 31, 2020 Financial Statements. As noted in the effective date information below, the goodwill impairment triggering event evaluation alternative available in ASU 2021-03 can be adopted for December 31, 2020

financial statements, as long as those financial statements have not yet been issued or made available for issuance as of March 30, 2021. However, as discussed below, FASB ASC 350-20-65-4a does preclude retroactive application as of the beginning of an annual period for which U.S. generally accepted accounting principles (U.S. GAAP)-compliant interim-period financial statements already have been issued in the year of adoption.

Interim Reporting. Entities that report U.S. GAAP-compliant financial information on an interim basis are not allowed to delay evaluating goodwill impairment triggering events to the annual reporting date. If an entity determines that it is required to report U.S. GAAP-compliant interim financial information, FASB ASC 350-20 requires that U.S. GAAP-compliant interim financial information include an evaluation of interim triggering events. Per FASB ASC 350-20-35-86, an entity should not apply this guidance retroactively to interim periods for which annual financial statements already have been issued. As indicated in the Basis for Conclusion (BC) 29 of ASU 2021-03, the FASB decided not to further define what constitutes U.S. GAAP-compliant financial information. The FASB concluded that entities already should be applying the provisions of FASB ASC 350-20 anytime they report in compliance with U.S. GAAP; therefore, the amendments in ASU 2021-03 merely shift the timing of when to perform the goodwill impairment triggering event evaluation to the end of the reporting period. So, guidance on when to apply the accounting alternative, or the range of financial information that constitutes U.S. GAAP-compliant financial information, is not within the scope of ASU 2021-03. However, the FASB does not expect the provisions of ASU 2021-03 to change an entity's understanding of when it reports financial information.

Example. An entity with a calendar year end provides financial information to its banker as of October 31, 2021. If that financial information is considered to be in accordance with U.S. GAAP- "U.S. GAAP-compliant," then ASU 2021-03 requires the goodwill impairment triggering event evaluation be performed as of October 31, 2021. If that financial information is not considered to be in accordance with U.S. GAAP, ASU 2021-03 allows the goodwill impairment triggering event evaluation to be performed as of December 31, 2021.

CPEA Observation: The meaning of "U.S. GAAP-compliant" interim financial information in this context will be a key determination in particular for 2020 year ends since FASB ASC 350-20-65-4a indicates that an entity shall not retroactively adopt the accounting alternative as of the beginning of an annual period for which U.S. GAAP-compliant interim-period financial statements already have been issued in the year of adoption. With respect to whether interim financial information is "GAAP-compliant", we feel that it is important to look at the intentions of the entity and the users of the entity's financial information. In some cases, U.S. GAAP compliance is not expected in financial information at interim dates. Significant judgment may be needed when representations are made asserting partial U.S. GAAP compliance for interim financial information.

Clarifications among the entity and its users about U.S. GAAP compliance in these cases could be helpful.

Practice Note: FASB ASC 350-20 now provides two accounting alternatives for eligible entities: (1) an alternative to amortize goodwill, and (2) an alternative to perform the goodwill impairment triggering event evaluation as of the end of the reporting period. An entity that elects either of the accounting alternatives is not required to elect or is precluded from electing the other alternative.

Performing the Goodwill Impairment Triggering Event Evaluation Under the ASU 2021-03 Alternative

An entity would not evaluate goodwill impairment triggering events and measure any related impairment during the reporting period. An entity electing the accounting alternative should assess whether events or circumstances have occurred that would require an entity to test goodwill for impairment as follows:

- For an entity that has elected the accounting alternative for amortizing goodwill, the entity's evaluation of a triggering event, as described in FASB ASC 350-20-35-66, should be performed only as of each reporting date.
- For an entity that has not elected the accounting alternative for amortizing goodwill:
 - If the entity performs its annual goodwill impairment test as of the end of the reporting period, the entity should not evaluate its goodwill for impairment during the reporting period as described in FASB ASC 350-20-35-30.
 - If the entity performs its required annual goodwill impairment test (under the traditional models to account for goodwill) on a date other than the end of the reporting period (in accordance with FASB ASC 350-20-35-28), the entity's evaluation of impairment between annual goodwill impairment tests (as described in FASB ASC 350-20-35-30) should be performed only as of the end of a reporting period.

Per FASB ASC 350-20-50-3B, an entity within the scope that elects the accounting alternative for a goodwill impairment triggering event evaluation shall disclose its use of the alternative as a significant accounting policy in accordance with paragraph 235-10-50-1.

Scope of ASU 2021-03 Alternative Limited to Goodwill

The accounting alternative provided by ASU 2021-03 only applies to the goodwill impairment triggering event evaluation. It does not encompass impairment testing of other assets and other intangibles. The FASB noted in BC 36 that entities are explicitly prohibited from analogizing the ASU 2021-03 accounting alternative to long-lived assets and other intangibles.

Effective Date and Transition

The amendments in ASU 2021-03 are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. An entity should not retroactively adopt the amendments in ASU 2021-03 for interim financial statements already issued in the year of adoption. The amendments in ASU 2021-03 also include an unconditional one-time option for entities to adopt the alternative prospectively after its effective date without assessing preferability under FASB ASC 250, *Accounting Changes and Error Corrections*.

Practice Note: The FASB decided to provide the accounting alternative on an ongoing basis and not to limit it to reporting periods affected by the COVID pandemic.

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