Goodwill and Intangible Asset Impairment Testing (ASC 350)

MAXIMIZING VALUE THROUGH KNOWLEDGE™

In accordance with ASC 350, goodwill and other indefinite lived intangible assets must be tested for impairment at least annually. The standard of value is fair value. If the impairment test is for a fiscal year beginning after November 15, 2008, fair value must comply with the definition and standards prescribed by ASC 820. Goodwill and other intangible assets may be tested between annual test dates if there is:

- A significant adverse change in legal factors or in the business climate
- An adverse action or assessment by a regulator
- Unanticipated competition
- A loss of key personnel
- A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of
- The testing for recoverability under Statement 121 of a significant asset group within a reporting unit
- Recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit

Goodwill and indefinite lived intangible assets must be tested at the reporting unit level. The identification of a company's reporting units can be a critical part of the ASC 350 analysis, and we will work together with your company and auditors to appropriately recognize the reporting units.

The ASC 350 analysis consists of two steps. Step 1 tests the reporting unit or company for impairment by comparing the fair value of equity to the book value of equity. If the fair value is less than the book value, the Step 2 analysis must be performed. The Step 2 analysis is essentially a purchase price allocation where the fair value of the reporting unit or company is the purchase price. Following the hypothetical purchase price allocation, the concluded fair value of goodwill is compared to the book value of the goodwill. If the fair value of goodwill is less than its carrying amount, an impairment is recorded based on the difference.

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