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Center for Plain English Accounting

AICPA's National A&A Resource Center

Goodwill
Presentation and Disclosure Requirements

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Smart people learn from their mistakes. But the really sharp ones learn from the mistakes of others.

Examples of Matters for Further Consideration

The financial statements did not disclose the following information for intangibles subject to amortization for each period for which a balance sheet was presented: (a) gross carrying amount and accumulated amortization, in total and by major intangible asset class and (b) estimated aggregate amortization expense for each of the five succeeding fiscal years.

The disclosure for goodwill did not include information about how and when reviews were made for impairment nor if there were any impairment losses or any other changes recognized during the period. Additionally, there is no disclosure of impairment testing of intangible assets with a definite life.

Goodwill is present and is being amortized but no disclosure of the nature of the goodwill or the amortization methods being used.

Intangible Assets are reported on the balance sheet. The notes to the financial statements did not disclose the nature of the intangible assets, the valuation method or the method of amortization.

We continue our reporting on Matters for Further Consideration (MFC) in peer review with our initial look at the MFCs for 2021 peer reviews pertaining to the presentation and disclosure requirements related to goodwill. We noted an above-average number of

MFCs related to goodwill disclosures, specifically. Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC) 350, *Intangibles—Goodwill and Other*, provides guidance for presentation and disclosure of goodwill.

> Illustrative disclosures presented in this report are not a substitute for the original authoritative accounting guidance. Accountants and practitioners are urged to refer directly to applicable authoritative pronouncements to help ensure compliance with required disclosure standards. The CPEA is not providing assurance that these illustrative disclosures comply with authoritative pronouncements and are not recommending or endorsing these examples.

<u>Accounting Alternatives</u>

U.S. generally accepted accounting principles (U.S. GAAP) allows private companies and not-for-profit (NFP) organizations to make two accounting policy elections (referred to as accounting alternatives) to simplify subsequent accounting for goodwill. These elections, in turn, impact the types of disclosures that are required related to goodwill.

The first accounting alternative, among other things, allows private companies and NFPs to amortize goodwill acquired in a business combination or in an acquisition by an NFP and to use a simplified one-step impairment test (referred to as the goodwill amortization accounting alternative). The application of the goodwill amortization accounting alternative is optional, meaning that eligible private companies and NFPs can continue to follow the guidance applicable to public business entities (PBEs) if they so choose.

In 2021, the FASB provided a second accounting alternative that allows private companies and NFPs to assess whether triggering events for goodwill impairment under FASB ASC 350-20 have occurred only as of the end of their annual reporting period or interim reporting period if they report more frequently (referred to as the goodwill triggering event evaluation accounting alternative). Once again, the application of this accounting alternative is optional, meaning that eligible private companies and NFPs can continue to follow the goodwill impairment guidance applicable to PBEs.

CPEA Observation: Eligible entities can elect either the goodwill amortization accounting alternative or the triggering event evaluation accounting alternative, regardless of whether they have elected to apply the other alternative.

Importantly, private companies and NFPs that have adopted the goodwill amortization accounting alternative have different disclosure requirements than PBEs. Section 1 of this report addresses the disclosure requirements for those entities that have adopted the accounting alternatives. Section 2 addresses the disclosure requirements for PBEs and other entities that have not adopted the accounting alternatives.

Section 1: Entities Electing the Accounting Alternatives

Disclosure Requirements (FASB ASC 350-20-50-3A)

The following information should be disclosed in the notes to financial statements for any additions to goodwill in each period for which a statement of financial position is presented:

a. The amount assigned to goodwill in total and by major business combination, by major acquisition by an NFP entity, or by reorganization event resulting in fresh-start reporting
b. The weighted-average amortization period in total and the amortization period by major business combination, by major acquisition by an NFP entity, or by reorganization event resulting in fresh-start reporting

The following information should be disclosed in the financial statements or the notes to financial statements for each period for which a statement of financial position is presented:

a. The gross carrying amounts of goodwill, accumulated amortization, and accumulated impairment loss
b. The aggregate amortization expense for the period
c. Goodwill included in a disposal group classified as held for sale in accordance with FASB ASC 360-10-45-9 and goodwill derecognized during the period without having previously been reported in a disposal group classified as held for sale

For each goodwill impairment loss recognized, the following information should be disclosed in the notes to financial statements that include the period in which the impairment loss is recognized:

a. A description of the facts and circumstances leading to the impairment
b. The amount of the impairment loss and the method of determining the fair value of the entity or the reporting unit (whether based on prices of comparable businesses or nonprofit activities, a present value or other valuation technique, or a combination of those methods)
c. The caption in the income statement or statement of activities in which the impairment loss is included
d. The method of allocating the impairment loss to the individual amortizable units of goodwill

In accordance with FASB ASC 350-20-50-3B, an entity within the scope of FASB ASC 350-20-15-4A that elects the accounting alternative for a goodwill impairment triggering event evaluation should disclose its use of the alternative as a significant accounting policy in accordance with FASB ASC 235, *Notes to Financial Statements*, specifically FABS ASC 235-10-50-1.

CPEA Observation: FASB ASC 820, *Fair Value Measurement*, generally requires disclosure of quantitative information regarding significant unobservable inputs. However, a private company or NFP is not required to make these disclosures for goodwill after the goodwill is initially recognized as part of a business combination or an acquisition by an NFP.

Financial Statement Presentation

FASB ASC 350-20-45-5 indicates that the aggregate amount of goodwill net of accumulated amortization and impairment should be presented as a separate line item in the statement of financial position..

FASB ASC 350-20-45-6 indicates that the amortization and aggregate amount of impairment of goodwill shall be presented in income statement or statement of activities line items within continuing operations (or similar caption) unless the amortization or a goodwill impairment loss is associated with a discontinued operation.

FASB ASC 350-20-45-7 indicates that the amortization and impairment of goodwill associated with a discontinued operation should be included (on a net-of-tax basis) within the results of discontinued operations.

In accordance with FASB ASC 350-20-40-9, when a portion of an entity (or a reporting unit) that constitutes a business or nonprofit activity is to be disposed of, goodwill associated with that business or nonprofit activity should be included in the carrying amount of the business or nonprofit activity in determining the gain or loss on disposal. An entity should use a reasonable and rational approach to determine the amount of goodwill associated with the business or nonprofit activity of which is being disposed.

Section 2: All Other Entities

Disclosures about Changes in Carrying Amounts

FASB ASC 350-20-50-1 provides the disclosure requirements related to changes in the carrying amounts of goodwill. According to that guidance, a reporting entity must disclose any changes to the carrying amount of goodwill from the beginning of the reporting period to the end of the period. Further, each of the following categories should be reported separately:

- The gross carrying amount of goodwill as of the beginning of the period and the accumulated goodwill impairment losses as of the beginning of the period
- Additions for new amounts of goodwill recognized, with an exception for goodwill in a disposal group that, at the time of acquisition, satisfies the conditions for classification as held for sale
- Changes related to deferred tax assets recognized pursuant to the guidance in FASB ASC 805, *Business Combinations*
- The amount of goodwill in a disposal group that, at the time of acquisition, can be classified as held for sale and the amount of goodwill derecognized that had not been accounted for as part of a disposal group classified as held for sale
- Decreases for impairment losses recognized according to the requirements of FASB ASC 350-20
- Increases or decreases for the net effects of foreign exchange differences as prescribed by FASB ASC 830, *Foreign Currency Matters*
- Other changes to the carrying amounts of recognized goodwill that occurred during the period and are not included in this list
- The gross carrying amount of goodwill as of the end of the period and the accumulated goodwill impairment losses as of the end of the period

An entity may have a reporting unit with a zero or negative carrying value of net assets. If this reporting unit has goodwill allocated to it, according to FASB ASC 350-20-50-1A, that fact must be disclosed along with:

- The amount of allocated goodwill
- Which reportable segment contains the reporting unit

The following is an example of this disclosure requirement from Caesars Entertainment Corporation.

> **Note 7–Goodwill and Other Intangible Assets**
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> $405 million of goodwill is associated with a reporting unit with zero or negative carrying value. As the reporting unit has a positive fair value, there was no impairment associated with this reporting unit.

<u>Disclosures for Goodwill Impairment Losses</u>

According to FASB ASC 350-20-50-2, a reporting entity must provide the following information for every goodwill impairment loss that occurs during the reporting period. This information must be disclosed in the notes to the financial statements that are issued for the same period in which the losses are recognized:

- Facts and circumstances contributing to the goodwill impairment loss
- Amount of the goodwill impairment loss, as well as the approach for establishing the fair value of the reporting unit; possible methods include:
    - Quoted market prices of the reporting unit
    - Prices of a business or NFP comparable to the reporting unit
    - Present value calculations or other valuation techniques applied to the performance measures of the reporting entity
    - A combination of these methods

The following table provides examples of disclosures made by public companies about the facts and circumstances contributing to a goodwill impairment loss. The level of detail that an entity uses for this disclosure may depend, in part, on the significance of the impairment to the entity's financial statements.

Company	**Excerpt from SEC Filing**
Bristow Group Inc.	Loss on impairment included goodwill impairment charges of $8.7 million for the three and nine months ended December 31, 2016 (...) The goodwill impairment charges related to Eastern Airways and resulted from an overall reduction in expected operating results due to the downturn in the oil and gas market driven by reduced crude oil prices[.]
Sonoco Products Company	During the Company's annual goodwill impairment testing conducted during the third quarter of 2016, management concluded that goodwill associated with the Company's Paper and Industrial Converted Products - Brazil reporting unit had become impaired as a result of the continued deterioration of economic conditions in Brazil. Accordingly, an impairment charge totaling $2,617, the entire amount of goodwill associated with this reporting unit, was recognized during the third quarter of 2016.
Mesa Laboratories Inc.	During the nine months ended December 31, 2017, revenues in our Cold Chain Packaging reporting segment decreased significantly as compared to the same period in the prior year primarily due to a significant decrease in revenues from our largest customer and the loss of the business of one of our larger customers. During the three months ended December 31, 2017 we completed a detailed review of the cold chain packaging business and concluded that long and difficult sales-cycles associated with this product set, when coupled with higher than previously contemplated costs for operating and expanding the

	necessary infrastructure to support revenues growth have resulted in a forecast of lower than expected revenues, gross margin percentages and overall profitability as compared to our original model for this business. Based on these facts, we concluded that we had a triggering event requiring assessment of impairment for certain of our long-lived assets associated with the Cold Chain Packaging reporting segment. As a result, we reviewed the long-lived assets associated with this reporting segment and recorded a $13,819,000 impairment charge related to goodwill, which is included in impairment loss on goodwill on the accompanying condensed consolidated statements of operations for the three and nine months ended December 31, 2017. The impairment loss was measured using a market approach utilizing an EBITA multiple model. The remaining goodwill and intangible assets associated with this segment are $1,434,000 and $4,340,000, respectively as of December 31, 2017.

CPEA Observation: FASB ASC 820 generally requires disclosure of quantitative information regarding significant unobservable inputs. However, a reporting entity is not required to make these disclosures for goodwill after the goodwill is initially recognized as part of a business combination or an acquisition by an NFP entity, according to FASB ASC 350-20-50-3.

<u>Financial Statement Presentation</u>

FASB ASC 350 requires that the aggregate amount of goodwill be presented as a separate line item in the balance sheet. FASB ASC 350-30-45-1 also requires that, at a minimum, the aggregate balance of intangible assets (excluding goodwill) be shown as a separate line item on the balance sheet.

Goodwill impairment losses should be presented as a separate line item in the income statement before the subtotal “income from continuing operations” (or similar caption) unless a goodwill impairment loss is associated with a discontinued operation. According to FASB ASC 350-20-45-3, a goodwill impairment loss associated with a discontinued operation should be included within the results of discontinued operations. Any portion of goodwill assigned to net assets that represent a business disposed of should be recognized as part of the gain or loss on disposal of those assets and not with other goodwill impairment losses.

Conclusion

We hope this report is helpful in understanding the presentation and disclosure requirements related to goodwill. And, as always, the CPEA is available to answer our members' questions.

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