

April 27, 2011 | Issue #103-4

## Brad Pursel responds to FASB's new exposure draft relating to goodwill impairment testing

Last week FASB published an [exposure draft](#) related to goodwill impairment testing under ASC 350 that, if adopted, would result in the below changes to GAAP. The stated objective of the Exposure Draft is to reduce the cost and complexity faced by financial statement preparers related to complying with the Step One goodwill impairment test (note: indefinite-lived intangible asset testing is not addressed). **Brad Pursel** (Brown Smith Wallace) provided *BVWire* with a summary of significant proposed updates:

1. Companies can no longer carry over the fair value determination from a prior year impairment test.
2. A qualitative approach would eliminate need to perform a quantitative evaluation unless qualitative evaluation results in more likely than not (i.e., greater than 50%) probability that carrying value exceeds fair value.
3. If the carrying value is zero or negative and qualitative evaluation results in more likely than not probability that goodwill is impaired, then companies may proceed directly to Step Two.
4. In terms of disclosure, there is no need to disclose Level 3 assumptions when analyzing goodwill impairment.

Brad's conclusion as to whether this will make impairment testing easier? "After reviewing the Exposure Draft and considering my experience both providing valuation services as well as reviewing valuations on behalf of audit clients, I do not believe that adoption of the Exposure Draft would achieve its stated objective of reducing the cost and complexity of complying with the Step One goodwill impairment test," he says.

"For situations where it is obvious that there is no impairment, my experience has been that public accounting firms are generally not requiring a third party valuation. Exceptions may include public companies where there are some 'non slam dunk' reporting units and there is a need to reconcile sum of the parts to overall valuation of the company. Most importantly, in my opinion, the current guidance already includes a qualitative approach related to carry forward option of prior fair value measurement, which preparers have indicated public accountants are generally uncomfortable relying upon."

The comment period for the proposal ends June 6, and the new standards would be effective for impairment tests performed for fiscal years beginning after December 15, 2011 (if approved.) According to FASB "interested parties providing their comments by letter should submit their letters by email to [director@fasb.org](mailto:director@fasb.org), File Reference No. 2011-180."

Check the June issue of the *Business Valuation Update* for Pursel's complete analysis of the Exposure Draft.

Search All BVR

 

BVResources

BVMarketData

BVLibrary

BV Publications

BVR Education & CPE

American Society of Appraisers  
ASA  
Don't miss your chance  
to sponsor ASA's  
75TH INTERNATIONAL  
APPRAISERS CONFERENCE  
WASHINGTON, DC  
AUGUST 14-17, 2011  
For more information  
[email\\_editor@appraisers.org](mailto:email_editor@appraisers.org)

Ernst & Young Employee  
Disappointed with Boston  
Office's Party Planning,  
Lack of Boozehounds  
**GOING CONCERN**  
Accounting News for  
Accountants & CFOs