


TRIGGERING EVENTS and IMPAIRMENT TESTING: ASC 350 & 360 –

Financial Reporting Insight
by Darleen Armour, ASA and David Gaynor, ASA

Fake News: A “Short-term” Reduction in Cash Flow Caused by COVID-19 is NOT Considered a Triggering Event.

Fact: COVID-19 Has Impacted ALL Industries and ALL Companies Have Been Affected Differently. Those entities whose operations and/or markets were negatively impacted by COVID-19 may need to consider testing for impairment.



Impairment testing has been a part of the US Financial Reporting lexicon for almost 20 years. Typically, impairments are caused by an acquirer not meeting the projections they established for its acquired enterprise. Market conditions can also drive a company to test for impairment – we may be in such an economic environment today.

***Consider:** A private company's publicly traded comparable (competitor) companies are experiencing a decrease in market/share value, which implies that the private company may be experiencing a similar downturn. This is a common situation that could prompt the need for company management – often at the recommendation of their auditor – to request an impairment analysis from an independent valuation specialist.*

Public Company Reporting: Under Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Subtopic 350-20-35-1, goodwill and certain intangibles are not amortized by public companies; rather, these assets must be periodically tested for impairment under ASC No. 350, *Intangible-Goodwill and Other*. According to ASC 350-20-35-30, goodwill should also 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” (a “**triggering event**”). Testing is typically performed annually and provides management, auditors, and investors with some assurance that the company’s balance sheet reflects the current expectations. Furthermore, ASC 360 and 842 address the impairment assessment of non-financial long-lived assets such as machinery and equipment, leases, customer relationships and technology.

BUT ... not just for Public Companies: ASC 350 requires **interim impairment** testing for public and private companies when certain triggering events occur. The following are examples of possible triggering events¹:

¹ As indicated in FASB ASC 350-20-35-3F, these examples are not all-inclusive, and an entity should consider other relevant events and circumstances that affect the fair value of a reporting unit.

- Deterioration of macroeconomic conditions
- Obsolescence of a product line or equipment
- Limitations on accessing capital
- Fluctuations in foreign exchange rates
- Increased competition
- Decline in market multiples
- Industry weakening
- Change in product/service demand
- Changes in regulatory or political environments
- Increased costs
- Declining revenues and/or cash flows
- Lost customers
- Contemplation of bankruptcy
- Litigation
- Changes in how the reporting unit is structured/the asset group
- A sustained decline in share price, if applicable

Certain business such as retail stores, restaurants, and those in the entertainment, travel and hospitality industries have been severely negatively impacted by COVID-19. Due to travel restrictions and shutdowns, companies in these industries have experienced substantial reductions in 2020 cash flows and uncertainty surrounds projected 2021 cash flows. It is anticipated that companies in these industries will face impairment and write-downs in the near future.

Because of this, auditors will be scrutinizing financial statements, projections, and impairment analyses to a higher degree than in years past. Several of our valuation professionals have worked in the valuation practices of public accounting firms and understand, from personal experience, what your audit firm will expect. We are happy to get on the phone with you and your auditor to discuss impairment testing and any other valuation topics.



Darleen Armour, ASA
Managing Director
Financial Valuation & Consulting
213.233.1516
darmour@marshall-stevens.com

Darleen has over 30 years of experience performing independent valuation analyses for financial reporting. She has served in a senior role in the valuation practices at an international audit firm before joining Marshall & Stevens. She specializes in Entertainment & Media and Technology industries.



David A. Gaynor, II, ASA
Managing Director
Healthcare and Financial Valuation
212.575.2298
dgaynor@marshall-stevens.com

David has decades of experience performing independent valuation analyses for financial reporting for public and private companies. He has served in a senior role in the valuation practices at multiple international audit firms before joining Marshall & Stevens. He specializes in Health Care and Restaurant industries.

To discuss Impairment Testing and other Financial Reporting topics:

Chicago:

John Spude, ASA 312.223.8545
Matt West, ASA 312.223.8547

Los Angeles:

Darleen Armour, ASA 213-233-1516

New York:

David Gaynor, ASA 212.425.4300
Simon Koo, CFA 646.438.8074
Ellie Tinoco 212.575.2488

Tampa:

Jamie Sieman, ASA 813.345.5308