VRC

# GOODWILL IMPAIRMENT SURVEY SUMMARY

## SEPT/OCT 2019

The Financial Accounting Standards Board (FASB) recently opened an Invitation to Comment (ITC) soliciting feedback on whether and how to further simplify the accounting for goodwill and intangible assets for public companies. Given VRC's unique position as a user of financial statements and as a service provider working with "preparers" of financial statements, we polled our clients to get their thoughts on the current accounting for goodwill and intangible assets, and have summarized our findings below.

The responses to our survey, and especially the lack of homogeneity of the responses, were somewhat surprising. The three clear takeaways are:

1. **Preparers prefer amortization of goodwill.**
2. **But, preparers do not want to change how intangible assets are identified and valued in a business combination.**
3. **Preparers are also split almost evenly on whether or not they believe the benefit of impairment testing exceeds the cost.**

As we peel back the onion, we observe several other interesting trends from the respondents' commentary:

- Preparers want simplicity – new standards on leases and revenue recognition has caused a significant increase in time and effort.
- When there are impairments, the work is significant – especially with Step 2 – and it creates a significant strain on senior management (CEO, CFO, etc.) Elimination of Step 2 of the goodwill impairment test goes a long way in reducing their effort.
- Despite the headlines minimizing the benefits of impairments, preparers do believe that the process of testing for impairment causes companies to be more forthright with information and analyze transactions more diligently pre-deal, in order to minimize the likelihood of an impairment.

In conclusion, we believe the results show a disconnect exists. 80% of respondents favor further simplification. 85% say no change is needed in parsing intangibles. And, nearly equally split, 51% see no cost-benefit issue. We believe the disconnect is indicative of an ever-decreasing bandwidth encumbering preparers as a result of conforming to an exhaustive list of revised accounting standards.

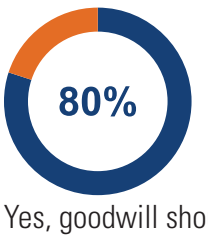
## PREPARER SURVEY RESPONDENT DEMOGRAPHICS

22% Chief Accounting Officer
20% Chief Financial Officer
19% Director of SEC Reporting
15% Corporate Controller
24% Other*

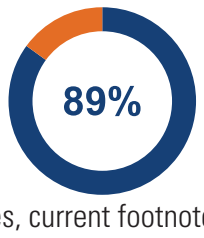
76% Publicly Traded
17% Privately Held
2% Private Equity Firm
5% Audit, Tax or Other Service Provider

*Titles include Chief SEC Reporting Director, Sr. VP Finance, Senior Finance Manager, and Technical Accounting Manager

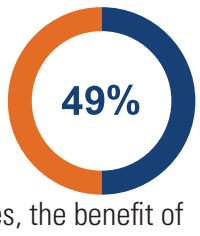
## PREPARER SURVEY RESPONSES



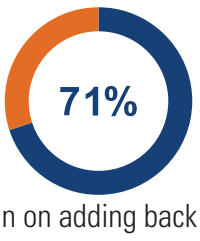

Yes, goodwill should be amortized.



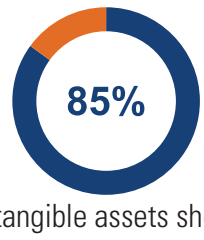

Yes, current footnotes are sufficient.




Yes, the benefit of impairment testing exceeds its cost.




Plan on adding back goodwill amortization in determining non-GAAP earnings calculations.




Intangible assets should be identified and valued in a business combination.

## ADDITIONAL (OUT-OF-THE-BOX) PREPARER COMMENTS

1. Simplify the test. Possibly a trigger-based approach.
2. Mixed model is an issue – organically generated intangible assets should be recognized, especially trademark and technology assets.
3. Goodwill should be recognized at a higher level – segment or possibly at the entity level.
4. Generally, there is a mixed understanding of the attributes of goodwill. Some think of the short-term attributes – workforce, synergies – others think of long-term benefits – risk reduction, growth, diversification.