

Accounting Standards Codification 350 – Intangibles- Goodwill and Other



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2. ASC 350-20 – Goodwill

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4. ASC 350-40 - Internal use Software

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Welcome to our “**Uniquis’ ASC Insights Series: Guide to Accounting Standards**,” where we combine our collective wisdom to understand various Accounting Standard Codifications (ASCs) comprehensively and in a crisp manner. This series is an invaluable tool for accounting professionals, offering detailed explanations, illustrative examples, and our expert point of view. Designed to support your professional journey, this guide helps you navigate complex accounting scenarios and deepen your knowledge.

This is the fourteenth publication in our “Uniquis’ ASC Insights Series: Guide to Accounting Standards”, focusing on “**ASC 350, Intangibles- Goodwill and Other**”. In this installment, we delve into the specifics of ASC 350, exploring its implications, key considerations, and practical applications. Through clear illustrations and expert commentary, we aim to make the standard accessible and actionable for practitioners.

The primary objective of ASC 350 is to provide guidance on the accounting for intangible assets, particularly goodwill. It provides the recognition and measurement principles for intangible assets with a significant focus on goodwill.

We hope you enjoy reading this document and find this series valuable!

Thank you.

Yours faithfully

For Uniquis Consultech Inc.



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PURPOSE

ASC 350, “Intangibles – Goodwill and Other,” provides guidance on how to account for and report goodwill and other intangible assets after they have been initially recognized. This includes how to measure them subsequently and test them for impairment. However, ASC 350 does not cover the initial accounting for goodwill and intangible assets when they are first acquired as part of a business combination or by a not-for-profit entity; that initial recognition is addressed by other accounting standards, such as ASC 805, “Business Combinations.”

This publication provides an overview of the key accounting considerations and implementation matters relating to ASC 350. The technical views and accounting positions on the framework keep enhancing.

We sincerely hope you find this quick reference guide informative in identifying and evaluating the issues related to the Intangibles. We will be happy to participate in any discussions required to clarify our views, which are enclosed in the attached publication. We look forward to hearing from you.



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BACKGROUND

The scope of ASC 350, “Intangibles – Goodwill and Other,” primarily covers the subsequent accounting and reporting for two main categories of assets:

1. Goodwill

- **Focus:** As noted above, while other accounting standards provide guidance on recognition and initial measurement of goodwill, ASC 350 provides guidance on the subsequent accounting for goodwill acquired in a business combination or resulting from a joint venture formation. ASC 350 dictates that goodwill is not amortized except when the accounting alternative is available for specified companies. Instead, its primary accounting treatment under ASC 350 is impairment testing.
- **Impairment Testing:** This involves assessing, at least annually (or more frequently if triggering events occur), whether the fair value of the reporting unit to which goodwill is assigned is less than its carrying amount. If so, an impairment loss is recognized.
- **Scope Exclusion:** Crucially, ASC 350 does not cover the initial recognition and measurement of goodwill when it arises from a business combination. That initial accounting is governed by ASC 805, Business Combinations. Similarly, it doesn’t cover the initial accounting for goodwill in an acquisition by a not-for-profit entity.

2. Other Intangible Assets (i.e., assets other than goodwill):

- **Indefinite-Lived Intangible Assets:** These are the assets that do not have a determinable useful life (e.g., certain trademarks, brand names). Like goodwill, they are not amortized but are subject to annual impairment testing (or more frequently if triggering events occur)
- **Definite-Lived Intangible Assets:** These are assets with a determinable useful life (e.g., patents, customer lists with a fixed term, software). They are amortized over their useful life. While ASC 350 addresses their subsequent measurement (including amortization), their impairment testing, when triggering events occur, generally falls under ASC 360, Property, Plant, and Equipment.
- **Internal-Use Software (ASC 350-40):** This specific subtopic within ASC 350 provides detailed guidance on accounting for costs incurred in developing or obtaining software for a company’s internal use. It specifies which costs should be capitalized and which should be expensed, based on the stage of the software development project.



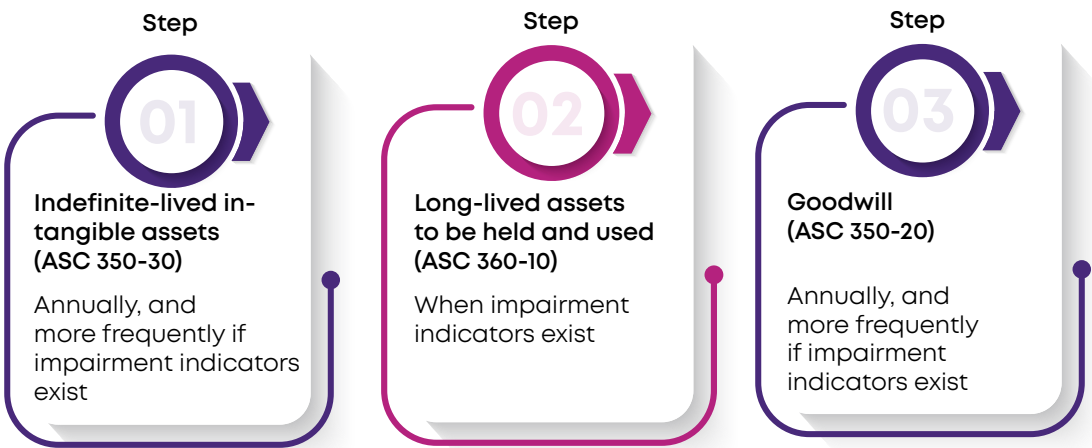
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The following summarizes the reach of ASC 350's principles:

		
	• Subsequent measurement of goodwill: Primarily focusing on non-amortization and impairment testing.	• Initial recognition and measurement of goodwill and other intangible assets acquired in a business combination: This falls under ASC 805, Business Combinations.
	• Subsequent measurement of other intangible assets: • Amortization for definite-lived intangibles. • Impairment testing for indefinite-lived intangibles.	• Impairment of definite-lived intangible assets when a triggering event occurs: While ASC 350 sets the stage by requiring amortization, the specific impairment test (recoverability and fair value) for these assets is generally found in ASC 360.
	• Accounting for internal-use software development costs.	• Research and development (R&D) costs: These are generally expensed as incurred, although certain development costs for software to be sold, leased, or marketed can be capitalized under ASC 985-20 once technological feasibility is established.
	• Initial recognition of intangible assets that are acquired either individually or with a group of other assets in a transaction other than a business combination or an acquisition by a not-for-profit entity: These are measured based on their cost to the acquiring entity as per the principles of ASC 805-50.	
	• Required disclosures related to goodwill and other intangible assets.	

Order of Impairment testing

ASC 350 and ASC 360 provide guidance on impairment testing requirements and procedures. The diagram below outlines the typical sequence in which assets are assessed for impairment and how frequently those assessments should occur.



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SUMMARY OF TOPIC

1. Applicable accounting guidance

	Applicable Accounting Guidance	
	Amortization	Impairment
Goodwill	Not Applicable	ASC 350-20
Finite-Lived Intangible Assets	ASC 350-30	ASC 360
Indefinite-Lived Intangible Assets	Not Applicable	ASC 350-30
Internal Use Software	ASC 350-40	ASC 360
Website development cost	ASC 350-50	ASC 360
Crypto Assets ²	Not Applicable	

2. ASC 350-20 – Goodwill

2.1. Initial Recognition and Measurement Principles

ASC 805 mandates the initial recognition of goodwill as an asset in financial statements. Its measurement is determined by the excess of the acquisition-date fair values of the consideration transferred, any noncontrolling interest, and any previously held equity interest in the acquiree, over the acquisition-date fair values of the net identifiable assets acquired. Intangible assets that do not satisfy the criteria for separate asset recognition are subsumed into goodwill.

For detailed guidance on the Initial Recognition and Measurement Principles of goodwill, refer to our recent publication, [ASC Insights Series Guide to Accounting Standards on ASC 805 Business Combination](#)

2.2. Subsequent Recognition and Measurement Principles

ASC 350-20 dictates how companies should account for goodwill after its initial recognition. Instead of amortizing goodwill over time, the standard mandates an annual impairment test. This test must be conducted at a specific operational level within the company, known as the reporting unit, and no other level is permitted for this purpose. Impairment is the condition that exists when the carrying amount of a reporting unit, including goodwill, exceeds its fair value.

The following summarizes an overview of the goodwill impairment model as defined under Subtopic 350-20:

	Unit of Account	Impairment model	Measurement	Recognition	Allocation
Reporting unit Goodwill	Reporting unit	One-step model with optional qualitative assessment Annual testing requirement	Fair value	Excess of carrying amount over fair value (considering tax effects)	Reduce goodwill assigned to reporting unit (but not below zero)

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Impairment testing of goodwill



Unit of Account- Reporting unit

As per the principles of ASC 350, Goodwill cannot be tested for impairment at any level within the company other than the reporting unit level. In other words, ASC 350 requires that an entity assign all goodwill to one or more reporting units and test each reporting unit's goodwill for impairment at least annually and 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.

Goodwill is assigned to the reporting units expected to benefit from the synergies of the combination, even though other assets or liabilities of the acquired company may not be assigned to those reporting units. If some portion of goodwill is deemed to relate to the entity as a whole, that portion of goodwill should be assigned to all of the reporting units of the entity in a reasonable and supportable manner. In addition to a methodology that is reasonable and supportable, the methodology used should be consistent with the objectives of ASC 350-20-35-42 when goodwill is assigned to more than one reporting unit at the acquisition date.

Illustrative example: Assignment of Goodwill to Reporting Units (RUs)

ABC Inc. completed the acquisition of XYZ Inc. for the consideration transferred of \$500 million. The fair value of the net working capital acquired is \$80 million, the fair value of the acquired identifiable tangible and intangible assets is \$270 million, and goodwill is \$150 million. The acquisition is to be integrated into two of ABC's reporting units. There is no synergistic goodwill attributable to other reporting units.

	(In \$ millions)		
	RU 1	RU 2	Total
Fair value of:			
Net working capital	50	30	80
Tangible and intangible net assets	150	120	270
Net assets to be assigned	200	150	350

Analysis — direct method:

Using the direct method, ABC Inc. assigns goodwill to the reporting units based on the difference between the fair value of the net assets and the fair value of the acquired business (or portion thereof) to be assigned to the reporting units.

	(In \$ millions)		
	RU 1	RU 2	Total
Fair value of acquired business (or portion thereof)	330	170	500
Fair value of net assets to be assigned (from above)	(200)	(150)	(350)
Goodwill assigned to RUs	130	20	150

¹Goodwill Amortization Accounting Alternative is applicable for private companies and not-for-profit entities if elected.

²Instead of a separate impairment test, the crypto assets are remeasured to fair value at each reporting date as per the principles of ASC 350-60.

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Analysis – “with-and-without” method:

Using the with-and-without method, ABC Inc. assigns goodwill to the reporting units based on the difference between the fair value of the net assets to be assigned and the fair value of the acquired business (or portion thereof). However, the fair value of the acquired business (or portion thereof) is determined using a with-and-without method.

(In \$ millions)			
	RU 1	RU 2	Total
Fair value of reporting unit after acquisition	950	800	1,750
Fair value of reporting unit prior to acquisition	(620)	(630)	(1,250)
Fair value of acquired business or asset group*	330	170	500
Fair value of net assets to be assigned (from above)	(200)	(150)	(350)
Goodwill assigned to reporting units	130	20	150

** In this example, the sum of the fair values of the acquired businesses or asset groups equals the purchase price. In other circumstances, this may not be the case due to synergies and other characteristics related to the relationship between the businesses. In those cases, a reasonable and supportable method (e.g., a pro rata allocation) should be used to assign any excess goodwill remaining after this allocation process.*



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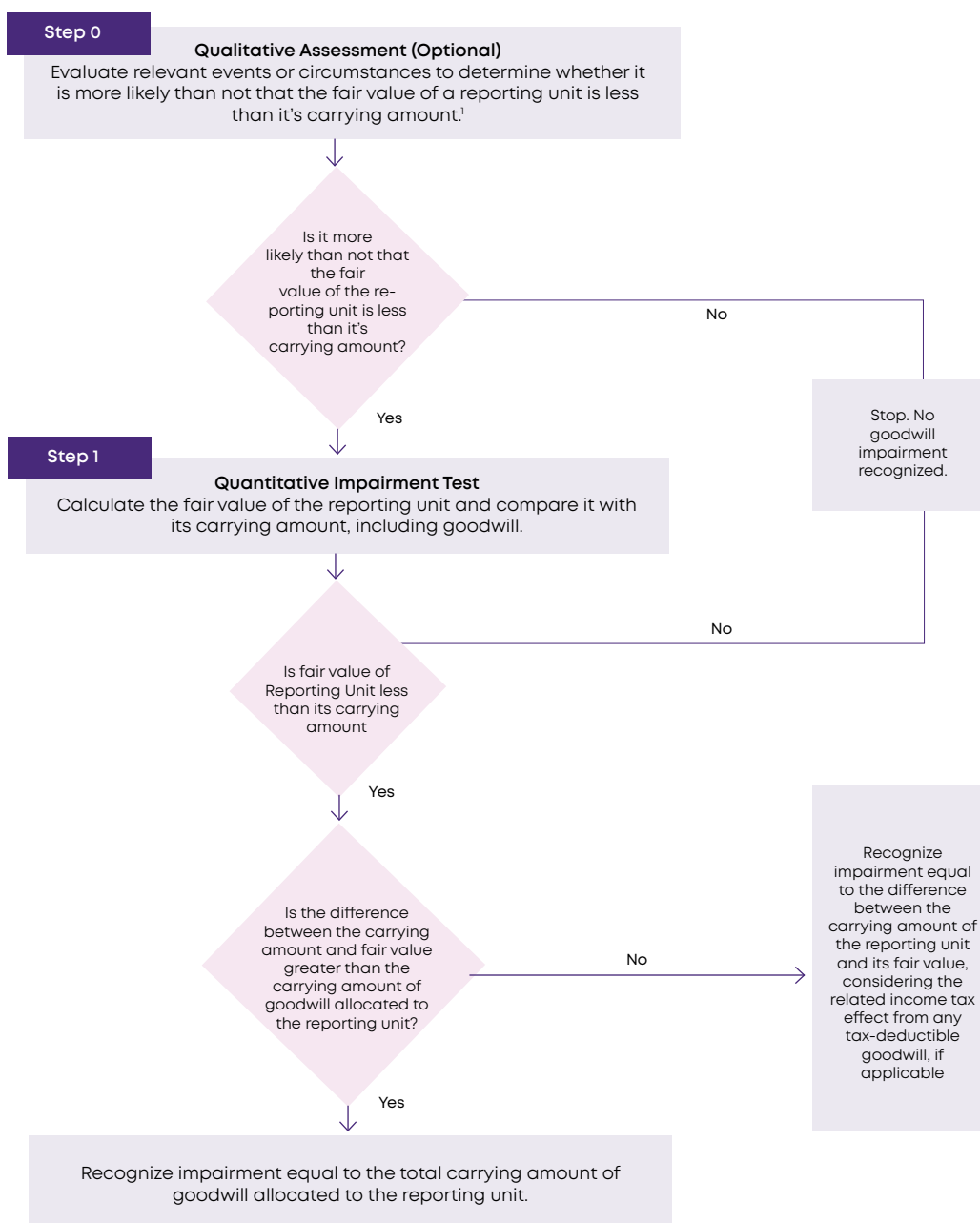
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Impairment model

ASC 350 mandates that companies annually test goodwill for impairment, requiring more frequent testing if impairment indicators arise. This test fundamentally involves comparing a reporting unit's fair value against its carrying amount (which includes goodwill).

The following flow diagram summarizes the impairment testing model for Goodwill as per the principles of ASC 350-20:



¹ Entity has the unconditional option to skip the qualitative assessment and proceed directly to calculating the fair value of the reporting unit and comparing that value with its carrying amount, including goodwill.

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Step 0

Qualitative Assessment

ASC 350 provides an **optional** qualitative assessment (also referred to as Step 0). This allows companies to determine if it's more likely than not (i.e., a likelihood of greater than 50%) that a reporting unit's fair value has fallen below its carrying amount.

- If this qualitative assessment leads to the conclusion that it is more likely than not, then the company must proceed with the quantitative impairment test.
- Conversely, if the qualitative assessment indicates it is not more likely than not, the goodwill impairment testing is considered complete, and the company is not required to perform the quantitative impairment test.

Qualitative assessment modifies the procedure for assessing goodwill impairment; however, it does not influence the periodicity of impairment testing nor the determination of the impairment loss. The following are some of the Key **Considerations** related to qualitative assessment.

a. Illustrative list of events and circumstances posing a threat of impairment

ASC 350 outlines several qualitative factors that companies should consider when performing the "Step 0" assessment for goodwill impairment. The goal is to determine if it's "more likely than not" that a reporting unit's fair value is less than its carrying amount.

Here's a list of common indicators to evaluate, keeping in mind that this list is not exhaustive and companies should consider any other relevant events or circumstances:

i. Macroeconomic Conditions:

- **Deterioration in general economic conditions:** Recession, economic slowdown, changes in GDP growth.
- **Limitations on accessing capital:** Increased interest rates, tightening credit markets, or difficulty obtaining financing.
- **Fluctuations in foreign exchange rates:** Adverse movements negatively impacting a reporting unit's revenues or costs.
- **Other developments in equity and credit markets:** Overall market downturns, decreased investor confidence.

ii. Industry and Market Considerations:

- **Deterioration in the environment in which the reporting unit operates:** Decline in demand for products/services, changes in consumer preferences.
- **Increased competitive environment:** New entrants, aggressive pricing by competitors, loss of market share.
- **A decline in market-dependent multiples or metrics:** For example, a drop in industry-specific valuation multiples (P/E ratios, EV/EBITDA multiples) for comparable companies.
- **Changes in the market for the reporting unit's products or services due to:**
 - Obsolescence of products/technology.
 - Demand shifts.
 - New legislation or regulatory actions creating an uncertain or changing business environment.
 - Expected changes in distribution channels.

iii. Cost Factors:

- **Increases in raw materials, labor, or other costs:** That negatively affect future expected earnings and cash flows of the reporting unit
- **Supply chain disruptions:** Leading to higher costs or inability to meet demand.

iv. Overall Financial Performance:

- Negative or declining cash flows (actual or projected).
- A decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods.
- Loss of a significant customer or customers.
- Loss of key contracts.
- Significant and sustained decline in stock price and market capitalization of the reporting entity (especially if it falls below book value).

v. Other relevant entity-specific events:

- **Changes in management, key personnel, strategy, or customers:** Such as a significant change in business strategy, a decision to dispose of a significant portion of the reporting unit, or the loss of key talent.
- **Contemplation of bankruptcy or other financial distress.**
- **Litigation or regulatory actions** that could have a material adverse impact.
- **Composition of the reporting unit has changed significantly** as a result of acquisitions or dispositions.
- **Loss of significant intellectual property or brand value.**
- **New products or services not gaining expected market acceptance.**

No single factor alone dictates the need for a quantitative impairment test. Instead, a company must comprehensively assess the potential impact of each identified negative factor on the reporting unit's fair value or carrying amount. This involves weighing these negative indicators against any positive or offsetting factors specific to that reporting unit, forming a holistic judgment.



It's a common observation that many companies opt to skip the qualitative assessment and go straight to a quantitative impairment test for goodwill. This is often because thoroughly evaluating all the qualitative factors outlined in ASC 350-20 can sometimes be more time-consuming and complex than simply calculating the fair value of a reporting unit itself.

Important Considerations for the Qualitative Assessment:

- **Holistic View:** Companies must consider the *totality* of these events and circumstances, not just individual factors in isolation. Both positive and negative indicators should be weighed.
- **Judgment:** The qualitative assessment requires significant management judgment. There are no strict rules on how to weigh different pieces of evidence or define "significance."
- **Documentation:** It's crucial to thoroughly document the analysis performed, the factors considered, and the rationale for the conclusion reached, whether a quantitative test is performed or not.
- **Bypass Option:** Companies always have the unconditional option to bypass the qualitative assessment and proceed directly to the quantitative impairment test. This means a company can choose to bypass it for any or all of its reporting units, in any given period, and instead proceed directly to the quantitative impairment test.

For instance, a company with multiple reporting units might perform the qualitative assessment for one unit while immediately conducting the quantitative test for another, all on the same measurement date. This flexibility is unconditional, allowing a company to reintroduce the qualitative assessment in a future period if desired, or conversely, switch back to the quantitative test after previously using the qualitative approach.

Illustrative example: Optional Qualitative Assessment (Step 0)

ABC Inc. has two reporting units, Unit-1 and Unit-2. In the prior year, ABC Inc. performed a quantitative impairment assessment for both reporting units, resulting in an 8 percent cushion (excess of fair value over carrying value) for Unit-1 and a 70 percent cushion for Unit-2. In the current year, ABC Inc. noted the following changes:

- Higher sales margin for Unit-2 than in the prior year.
- Lower demand than in the prior year for services sold by Unit-1, resulting in lower sales and margin than in the prior year.
- As compared to the current year budget, the actual results for both Unit-1 and Unit-2 were favorable.
- The market capitalization of ABC Inc.'s is greater in the current year as compared to the prior year.

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- Overall industry and market conditions are consistent with those of the prior year
- Acquisition activity in ABC Inc.'s industry is flat compared with the prior year, and deal values align with those completed in the prior year.

Analysis: In evaluating these changes, ABC Inc. would most likely elect to perform a qualitative assessment only for Unit-2 in the current year, since the prior-year cushion (70 percent) is significant, Units-2's financial performance has improved, and the overall market and industry environment has remained consistent with prior-year conditions. These factors, when considered in the aggregate, suggest that ABC Inc. may be able to conclude, based on a qualitative assessment only, that it is more likely than not that the fair value of Unit-2 exceeds its carrying value in the current year.

Conversely, ABC Inc. would most likely elect to perform a quantitative assessment in the current year for Unit-1 given the lack of cushion in the prior year (only 8 percent) and the decline in Unit-1's current-year financial performance. When considered in the aggregate, these factors suggest that the fair value of Unit-1 may be more sensitive to changes in the inputs (e.g., discount rate or revenue growth rate) and could be harder to support solely on the basis of a qualitative assessment.

As a result, ABC Inc. may need to perform a quantitative assessment to determine whether it is more likely than not that the fair value of Unit-1 exceeds its carrying value.

Step 1

Quantitative Impairment Test

Under ASC 350-20, the quantitative goodwill impairment test (often called "Step 1") requires companies to perform the following:

- **Determining Fair Value of Each Reporting Unit:**

The fair value of a reporting unit is essentially its market selling price in a normal, unforced transaction between willing participants. For public companies with a single reporting unit or a publicly traded subsidiary constituting a reporting unit, the company's (or subsidiary's) market capitalization offers strong evidence of that reporting unit's fair value.

Companies must establish the current fair value of each of their reporting units. ASC 350-20 does not prescribe a specific valuation approach or technique for measuring the fair value of the reporting unit. This is typically done using valuation techniques like discounted cash flow (DCF) analysis (or the income approach), market multiples (or the market approach), or a combination of approaches, aiming to estimate the price an asset or liability would fetch in an orderly transaction between market participants. ASC 820 provides the framework for measuring fair value, wherein the fair value is the exit price, i.e., the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

- **Determining Carrying Amount of Each Reporting Unit:** The company must calculate the total book value (carrying amount) of each reporting unit. This figure *must include* all assets, liabilities, and, crucially, the goodwill specifically allocated to that reporting unit
- **Compare and Recognize Impairment:** The final step involves a direct comparison:
 - If a reporting unit's carrying amount exceeds its fair value, then an impairment loss is recognized.
 - The amount of this impairment loss is equal to the excess of the carrying amount over the fair value.
 - However, the recognized loss is limited to the total amount of goodwill allocated to that specific reporting unit. This means goodwill cannot be impaired below zero, and other assets within the reporting unit are not impaired under this test.
 - The recognition of an impairment loss diminishes the carrying amount of goodwill within the impacted reporting unit, which, once recorded, is non-reversible.

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Illustrative example: Quantitative Assessment (Step 1)

Company X has completed the quantitative goodwill test for its four reporting units and determined the fair value of each unit using a discounted cash flow model. The table below depicts the analysis's results (amounts shown are in thousands).

RU's	Fair value	Carrying value	Fair value less carrying value	Goodwill allocated to RU	Recognized Impairment
RU 1	100	75	25	6	-
RU 2	40	45	(5)	12	(5)
RU 3	35	30	5	9	-
RU 4	50	60	(10)	8	(8)

- Fair values of the RU 1 and RU 3 reporting units exceed their carrying amounts and hence Company X concludes that the reporting units are not impaired. However, the RU 2 and RU 4 have fair values that are \$5 thousand and \$10 thousand less than their carrying amounts, respectively.
- Given that a goodwill impairment loss is limited by the total amount of goodwill assigned to that reporting unit, Company X compares the impairment calculated with the carrying amount of the goodwill.
- The RU 2 reporting unit will recognize the full \$5 thousand of impairment loss. However, only \$8 thousand of goodwill is assigned to the RU 4 reporting unit, so Company X will only record \$8 thousand of the \$10 thousand impairment loss. However, Company X should also consider whether an impairment indicator exists for the other assets of the RU 2 and RU 4 reporting units.

2.3. Implementation matters**1. Testing Different Reporting Units on Different Dates**

- ASC 350-20 allows companies to set different annual goodwill impairment testing dates for each of their reporting units, meaning they don't all have to be tested concurrently
- Despite this flexibility, it's a common practice for entities to choose the same testing date for all their reporting units, often aligning it with the impairment testing of other indefinite-lived intangible assets.
- When selecting this annual testing date for various reporting units, a company might consider several practical factors:
 - Public Reporting and Deadlines:** For public companies, aligning the testing date with external reporting requirements and filing deadlines can streamline the financial reporting process.
 - Seasonal Business Cycles:** The timing might be influenced by the seasonality of a reporting unit's business, where certain periods offer more representative or predictable financial data for valuation.
 - Resource Allocation:** Companies evaluate the time and effort involved in conducting each annual assessment, aiming for efficiency across multiple units.
 - Information Availability:** The chosen date often correlates with the timing and availability of crucial information needed for the assessment, such as finalized annual budgets and forecasts.
 - Coordination with Other Intangibles:** To optimize the overall impairment testing process, companies frequently synchronize the goodwill impairment testing with testing other indefinite-lived intangible assets.
- No matter when a company chooses to conduct its annual goodwill impairment test for a specific reporting unit, that **chosen date must be applied consistently year after year** for that unit unless it changes the testing date as per applicable guidance.

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When choosing a date for their annual assessment, companies should consider quarterly reporting and filing deadlines. This ensures they have ample time to complete necessary testing before financial statements are released. Consequently, many companies avoid selecting a date at the end of a quarterly or annual reporting period.

Public companies frequently opt for the first day of their fourth quarter as their annual testing date. This timing offers several advantages:

- They have access to the carrying amounts from the last day of the previous quarter.
- They have the entire fourth quarter to conduct the required valuation work.
- This often aligns well with the preparation of their budgets and forecasts for the upcoming year.

Another popular choice is the first day of the second month of the fourth quarter (e.g., November 1st for companies with a calendar year-end). This date can align even more closely with budget and forecast preparation while still providing sufficient time to finalize testing before financial statements are issued.

2. Changing the Date of the Annual Goodwill Impairment Test

A company has the option to change the date of its annual goodwill impairment test. However, if an entity decides to shift this date, it's crucial that they:

- Account for the change as a change in accounting principle under ASC 250-10.
- Establish that the new testing date is, in fact, a more suitable option.
- Ensure that no more than a year elapses between two consecutive tests.
- Confirm that the change isn't intended to delay or speed up a goodwill impairment charge.



As per the principles of ASC 250, in case of a change in accounting principles, the new principles are applied retrospectively to all prior periods, unless it is impracticable to do so.

ASC 250-10-45-9 outlines situations where retrospective application is considered impracticable. **This includes scenarios where a company would have to guess at management's past intentions without solid proof, or when it's impossible to objectively estimate significant amounts without using hindsight.**

Because of these complexities, companies often apply a change in their **goodwill testing date prospectively**. In other words, they only apply the new date from the point of change forward, not backward. This is based on the following rationale:

- They've determined that **retrospective application would be impracticable**.
- The change won't significantly impact their financial statements. This is because ASC 350-20 already requires them to check for goodwill impairment between annual tests on the occurrence of a triggering event.

3. Order of Testing Goodwill and Other Assets for Impairment

- General Rule applicable to Order of Impairment testing is when assets are tested for impairment, **those representing smaller units of account are tested – and their carrying amounts adjusted for impairment losses, if necessary – before larger units of account**
- **Long Lived asset classified as held for use:** When performing impairment tests, it's crucial to follow a specific order. If goodwill and other "held and used" assets (like inventory, long-lived assets, or indefinite-lived intangible assets) are to be tested for impairment simultaneously, then the impairment tests for all those other assets

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(representing smaller units of account) should be completed first.

The results of these tests, including any write-downs, must be reflected in the reporting unit's carrying amount before the goodwill impairment test is conducted. This ensures that the goodwill impairment analysis is based on the most accurate and up-to-date values of the underlying assets.

- **Long-lived assets classified as held for sale:** When a company classifies long-lived assets as "held for sale," the group of assets being disposed of (the "disposal group") can contain more than just the long-lived assets covered by ASC 360-10. It might also include things like receivables, inventory, indefinite-lived intangible assets, or even goodwill.

As a general rule for impairment testing, assets that are considered "smaller units of account" are tested and adjusted for any impairment losses before "larger units of account." However, once a disposal group meets the "held for sale" criteria, the entire disposal group (including the long-lived assets under ASC 360-10) becomes the new, larger unit of account for impairment purposes.

This specific order is important: because the disposal group that includes goodwill is considered a larger unit of account than just the goodwill itself, this sequence ensures that any assets within the group (including goodwill), which are otherwise smaller units of account, are first adjusted for any impairment losses. Only after these individual adjustments are made is the overall carrying amount of the disposal group finalized.

Illustrative example: Long lived assets held for use are tested for impairment before the goodwill impairment test

Company X is conducting its annual goodwill impairment test for a specific Reporting Unit. The relevant financial figures for this unit are:

- Total Carrying Amount: \$15,000
- Goodwill Carrying Amount: \$7,500
- Long-Lived Assets Carrying Amount: \$4,500
- Fair Value of Reporting Unit: \$13,000

During a preliminary qualitative assessment to determine the likelihood of goodwill impairment, Company X's management identified a potential impairment issue with the Reporting Unit's long-lived assets. Consequently, the company must first test these asset groups for impairment before proceeding with the goodwill impairment test.

Scenario 1: Long-Lived Assets are not impaired

Company X performed the initial "Step 1 recoverability test" for its long-lived assets and determined they were not impaired. Therefore, no adjustments were made to their carrying amounts.

With no impairment of long-lived assets, the Company then proceeded to test goodwill. Since the Reporting Unit's fair value of \$13,000 was less than its total carrying amount of \$15,000, a goodwill impairment was indicated. Company X subsequently wrote down goodwill by \$2,000 (\$15,000 [Carrying Amount] - \$13,000 [Fair Value]).

Scenario 2: Long-Lived Assets Are Impaired

In this scenario, Company X performed the Step 1 recoverability test and concluded that the long-lived assets were impaired. After completing the Step 2 fair value test, the long-lived assets were written down by **\$2,500**, reducing their carrying amount from \$4,500 to **\$2,000**.

Next, the fair value of the Reporting Unit (\$13,000) was compared against its adjusted carrying amount. The original total carrying amount of \$15,000 was reduced by the \$2,500 impairment loss on the long-lived assets, resulting in an adjusted carrying amount of **\$12,500**.

Crucially, when comparing the Reporting Unit's fair value (\$13,000) to its new, adjusted carrying amount (\$12,500), there is now an excess value of \$500. Consequently, unlike Scenario 1, **goodwill is not impaired in this situation**.

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6. ASC 350-60 - Crypto Assets

Comparison with IFRS

4. Newly acquired goodwill is stated at a provisional amount during the measurement period

- An entity must test recently acquired goodwill as part of its next annual goodwill impairment testing date, even if the accounting for the acquisition is still provisional. In other words, even if the exact carrying amount of newly acquired goodwill hasn't been finalized yet under Topic 805, a company cannot delay impairment testing. It must use the provisional amount of goodwill for this test.
- If, later on, the provisional goodwill amount is adjusted due to a qualifying measurement period adjustment, and this change would have altered the initial impairment loss (either increasing or decreasing it), that consequential effect should be recognized in the current period as part of those measurement period adjustments.

Illustrative example: Adjustment of Goodwill impairment loss as a measurement period adjustment

- On July 1, 2023, Parent company P acquired Subsidiary S. During the acquisition accounting process, Parent initially assigned temporary (provisional) amounts to Subsidiary's Property, Plant, & Equipment (PP&E) and certain intangible assets. As a result, the carrying amount of goodwill arising from the business combination was provisional
- All these assets, including the provisional goodwill, were assigned to an existing reporting unit (RU) within Parent. In October 2023, Parent conducted its annual impairment test. This test resulted in a goodwill impairment loss of \$3,500 for the RU, effectively writing off the entire goodwill amount allocated to it.
- In March 2024, Parent finalized the acquisition accounting. This led to a measurement period adjustment in which the carrying amount of certain assets decreased by \$1,000. Correspondingly, the carrying amount of goodwill increased by the same \$1,000. (For simplicity, deferred taxes and the impact of these adjustments on depreciation or amortization are not considered in this example.)
- The table below shows the effect of the measurement period adjustment, assuming no overall impact on the fair value of RU.

(All amounts in \$)			
Particulars	Impairment test-Original	Measurement period adjustment	Impairment test-adjusted
Net assets other than goodwill	10,000	(1,000)	9,000
Pre-existing goodwill in RU	3,000		3,000
Subsidiary goodwill	500		1,500
Carrying amount of RU	13,500		13,500
Fair value of RU	9,600		9,600
Excess of carrying amount over fair value	3,900		3,900
Goodwill impairment loss	3,500¹		3,900²

Notes-

1. Smaller of the carrying value of goodwill (\$3,500) and the Excess carrying amount over fair value (\$3,900).

2. Smaller of the carrying value of goodwill (\$4,500) and the Excess carrying amount over fair value (\$3,900).

If goodwill had been recorded at its adjusted carrying amount as of the date of acquisition, Parent would have recognized an impairment loss of \$3,900 – an increase of \$400.

Measurement period adjustment:

Parent recognizes the additional \$400 impairment loss in March 2024 as part of the measurement period adjustments. Parent does not revise its comparative information for 2023.



Goodwill Amortization Accounting Alternative

Under US GAAP, the traditional accounting for goodwill involves **no amortization**. Instead, goodwill is tested for impairment at least annually (and more frequently if triggering events occur). This is the standard for **public business entities (PBEs)**.

However, the Financial Accounting Standards Board (FASB) has provided an **accounting alternative for goodwill for private companies and not-for-profit entities**. This alternative aims to reduce the cost and complexity of accounting for goodwill for these types of entities.

The following summarizes the key considerations of the Goodwill Amortization Alternative:

Applicability	- Private companies – i.e., entities that are not public business entities or employee benefit plans - Not-for-profit entities
Accounting Principles	a. Amortization of Goodwill: - Entities that elect this alternative amortize goodwill on a straight-line basis. - The amortization period is typically 10 years, or less if the entity can demonstrate that a shorter useful life is more appropriate. An entity does not need to justify selecting the 10-year period. - Each “amortizable unit of goodwill” (which can be goodwill from a specific business combination) is amortized separately. - The useful life can be revised if circumstances warrant, but the cumulative amortization period for any unit of goodwill cannot exceed 10 years. b. Simplified Impairment Testing: Frequency: Instead of annual impairment testing, goodwill is tested for impairment only when a triggering event occurs. This significantly reduces the frequency and complexity of impairment evaluations compared to the traditional GAAP model. Level of Testing: Entities can elect to test goodwill for impairment at either the entity level or the reporting unit level. This provides more flexibility than the traditional model, which only allows testing at the reporting unit level. Measurement: The impairment test is simplified. It involves comparing the fair value of the entity (or reporting unit, if elected) with its carrying value (including goodwill). If the carrying value exceeds the fair value, an impairment loss is recognized for that excess, limited to the amount of goodwill.
Adoption	- Eligible entities can choose to adopt the goodwill amortization accounting alternative for the first time at the start of any fiscal year. - Once elected, the accounting principles apply prospectively to all the existing goodwill and any goodwill acquired in future business combinations.

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4. ASC 350-40 – Internal use Software

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• **Benefits of electing this alternative:**

- **Reduced Cost and Complexity:** The primary benefit is the reduction in the cost and effort associated with annual goodwill impairment testing and continuous monitoring for triggering events. Valuation exercises for impairment can be expensive and time-consuming.
- **Reduced Volatility:** Amortization systematically reduces the goodwill balance, which may decrease the likelihood or magnitude of large, sudden impairment charges that can significantly impact earnings.
- **Key consideration before electing this alternative:** Although the FASB offers a streamlined goodwill accounting model for private companies and not-for-profit organizations, it's vital for an entity to assess its long-term trajectory before making an election. Specifically, consider the possibility of becoming a Public Business Entity (PBE) in the future (e.g., through an initial public offering or if your financials become part of a public company's SEC filings under Regulation S-X, Rule 3-05).

The absence of specific relief or transition guidance from the FASB or SEC for such transitions means that private companies adopting this alternative, and later converting to PBEs, would face a requirement to retrospectively eliminate the impact of adopting this alternative from all financial statements submitted to the SEC. The longer the alternatives are applied, the more complex and difficult this retrospective adjustment becomes. The Board cautions entities that may eventually become public business entities to consider the potential future costs before electing this or any other alternative.

3. ASC 350-30 – Intangible Assets other than goodwill**3.1 Initial Recognition and Measurement Principles**

Under US GAAP, the initial recognition of intangible assets (other than goodwill) is governed primarily by ASC 350, Intangibles—Goodwill and Other, with specific guidance also found in other topics for certain asset types (e.g., software costs under ASC 985-20). The recognition principles differ based on how the intangible asset is acquired or developed.

a. Purchased Intangible Assets (Acquired Individually or with a group of assets in a transaction other than a business combination)

When an intangible asset is purchased from another entity (not as part of a business combination or an acquisition by a non-profit, or a joint venture formation as per ASU 2023-05), it is generally recognized on the balance sheet at its cost. When acquired with a group of assets, the total cost of acquiring these assets is typically allocated among the individual assets based on their relative fair values.

b. Intangible Assets Acquired in a Business Combination

When intangible assets are acquired as part of a business combination (i.e., acquiring control of another entity), the acquirer must recognize them separately from goodwill if they meet either the separability criterion or the contractual-legal criterion. These assets are recognized at their fair value at the acquisition date. The probability criterion and reliable measurement criterion for recognition are generally considered to be met for intangible assets acquired in a business combination, as the fair value measurement process inherently addresses these.

c. Internally Developed Intangible Assets

Unless capitalization is specifically permitted under U.S. GAAP, the costs of internally developing intangible assets should be expensed as incurred. **Key exceptions to expensing internally developed costs:**

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- **Software Developed for Internal Use (ASC 350-40):** Costs incurred during the application development stage can be capitalized if certain criteria are met (e.g., management commits to funding, completion is probable, and it will provide substantial future benefits). Costs in the preliminary project stage and post-implementation stage are generally expensed.
- **Software to be Sold, Leased, or Marketed (ASC 985-20):** Costs incurred to develop software are expensed as research and development until technological feasibility is established. Once technological feasibility is reached, subsequent development costs can be capitalized until the product is available for general release.
- **Patents, Copyrights, Trademarks (direct costs):** While the research leading to these is often expensed, the direct costs incurred to register or defend a patent, copyright, or trademark (e.g., legal fees) can typically be capitalized once the asset meets the identifiable criteria
- **Website Development Costs:** Depending on the nature of the costs (e.g., planning, content, infrastructure), some may be capitalized if they relate to long-term functional elements.

3.2

Subsequent Recognition and Measurement Principles

Once an intangible asset is recognized, a company must determine how long it expects to benefit from that asset. This “estimated useful life” classifies the intangible asset as either indefinite-lived or finite-lived.

The subsequent accounting for an intangible asset varies considerably on the basis of whether the useful life of the asset to the entity is considered indefinite or finite. An intangible asset with a finite useful life is amortized, while an intangible asset with an indefinite useful life is not amortized but is tested at least annually for impairment.

The following summarizes an overview of the impairment model applicable to intangible assets:

Finite-Lived Intangible Assets	Indefinite-Lived Intangible Assets
• Impairment testing for an asset (or asset group) is performed in accordance with ASC 360 only when events or circumstances suggest that its carrying amount may not be recoverable. • An impairment loss is recorded if, after a two-step evaluation, it is determined that the carrying amount of the asset or asset group is not recoverable and is greater than its fair value.	• Indefinite-lived intangible assets must undergo impairment testing at least once a year. Additionally, if events or changing circumstances suggest a potential impairment, more frequent testing is required • Impairment testing is performed as per the principles of ASC 350-30. • To begin, a company has the option to conduct a qualitative assessment. This initial step helps determine if it's “more likely than not” that the indefinite-lived intangible asset is impaired. • If this qualitative assessment indicates that impairment is indeed “more likely than not,” the company must proceed with a quantitative test. This involves comparing the asset's fair value to its carrying amount. Any amount by which the carrying amount exceeds the fair value must be recognized as an impairment loss.

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Comparison with IFRS

1.2.1. Finite lived Intangible assets**• Amortization Considerations**

- An acquired intangible asset must be amortized throughout its useful life. If an intangible asset has a finite, uncertain, useful life, it should be amortized over the most reliable estimate of that period.
- Amortization should be done on a systematic and rational basis, reflecting the pattern in which the asset's economic benefits are consumed. Straight-line method is commonly used when the benefit pattern cannot be reliably determined.
- When estimating the useful life of an intangible asset, a company evaluates all relevant factors, with no single factor being considered more important than the others. Specifically, the company considers:
 - How it intends to use the intangible asset.
 - The useful life of any related asset or group of assets.
 - Legal, regulatory, or contractual limits on the asset's life.
 - The company's history of renewing or extending similar arrangements, taking into account whether such renewals align with the intended use of the asset.
 - If renewal history is lacking, assumptions market participants would make about renewals or extensions that reflect the asset's highest and best use, adjusted for company-specific circumstances.
 - The impact of obsolescence, market demand, competition, and broader economic conditions, such as industry stability, technological changes, regulatory uncertainty, or shifts in distribution channels.
 - The level of maintenance spending necessary to generate expected future cash flows from the asset, particularly if high maintenance costs relative to the asset's carrying value suggest a limited useful life.

The useful life of an intangible asset should be reassessed at each reporting period to determine whether any events or circumstances indicate that the remaining useful life needs to be revised. If a change is warranted, the adjustment is accounted for prospectively, with the asset amortized over the updated remaining useful life.



- While it is expected to be uncommon, there may be instances where a finite-lived intangible asset is later determined to have an indefinite life. In such cases, the asset must first be tested for impairment using the same method applied to other indefinite-lived intangible assets—by comparing its carrying amount to its fair value. Any resulting impairment loss should be recognized the same way as other impairment losses on indefinite-lived intangible assets and not treated as a change in accounting principle.
- Once the asset is reclassified as having an indefinite life, amortization should stop, and the relevant guidance for indefinite-lived intangible assets must be applied going forward.

• Impairment Considerations

- Finite lived intangible assets subject to amortization under ASC 350-30, must be evaluated for impairment when there are indicators suggesting potential impairment, in accordance with ASC 360-10. These indicators include, but are not limited to
 - A significant decline in the asset's market price.
 - A major adverse change in how the asset is used or the extent of its use,
 - A significant unfavorable shift in legal factors or the overall business environment, such as negative regulatory actions or rulings.
 - Actual costs incurred for acquiring or developing the asset that significantly exceed initial expectations.
 - Current period operating or cash flow losses, especially when combined with a history of such losses, or projections that suggest continued losses from using the asset.
 - A current expectation that the asset will likely be sold or otherwise disposed of well before the end of its originally estimated useful life.
- **Recoverability Test:**
 - **Step 1:** Compare undiscounted future cash flows to the carrying amount.
 - **Step 2:** If not recoverable, measure impairment loss as the difference between carrying amount and fair value.

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1.2.2. Indefinite-lived Intangible assets**• Amortization Considerations**

As per the principles of ASC 350-30, if an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its useful life is determined to be no longer indefinite.

• Impairment Considerations

The following summarizes an overview of the goodwill impairment model as defined under Subtopic 350-20:

	Unit of Account	Impairment model	Measurement	Recognition	Allocation
Reporting unit	Generally single asset	- One-step model with optional qualitative assessment - Annual testing requirement	Fair value	Excess of carrying amount over fair value.	Reducing the carrying amount of intangible assets
Indefinite-lived Intangible assets					

Note: Impairment principles related to Indefinite-lived intangible assets are similar to principles applicable for Goodwill impairment assessment, except for “Unit of account,” wherein for Indefinite-lived intangible assets, the Unit of account is generally defined as a Single asset unless two or more indefinite-lived intangible assets are combined as per the indicators.

Impairment testing of Indefinite-lived Intangible assets**a. Unit of Account- Generally, a Single asset**

- The unit of account for impairment testing under Subtopic 350-30 is typically each individual indefinite-lived intangible asset. However, if multiple such assets are inseparable in operation and function as a single asset, they may be treated as a combined unit for the purposes of the impairment test.
- Following is the Illustrative list of indicators suggesting if two or more Indefinite-lived Intangible assets can be combined together as a Unit of account:

Suggesting combination	Suggesting no combination
- The intangible assets are used together as a single asset or were purchased “to construct or enhance a single asset.” - If the assets had been acquired in the same acquisition, “they would have been recorded as one asset.” - The intangible assets as a group represent the highest and best use of the assets.”	- The intangible assets generate “cash flows independent of any other intangible asset.” - If the assets had been acquired in the same acquisition, they would not have been recognized as a single asset. - If sold, each intangible asset would most likely be sold separately.

b. Impairment model

- An entity is required to establish a consistent annual testing date for each of its indefinite-lived intangible assets or for each relevant unit of account.
- When assessing indefinite lived intangible assets for impairment, the entity may choose to begin with a qualitative evaluation to determine whether a quantitative impairment test is necessary. Alternatively, the entity has the option to skip the qualitative assessment and proceed directly to the quantitative analysis. If the qualitative assessment indicates a potential impairment, the entity must perform the quantitative test.
- In the quantitative test, an impairment loss is recognized if the **carrying amount of the indefinite-lived intangible asset exceeds its fair value**, with the loss limited to

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the asset's carrying amount. Prior to conducting the impairment test, the entity must evaluate the appropriate **unit of account** for the asset, which may be a single asset or a combination of two or more assets. An entity is not permitted to reverse an impairment loss.

3.3

Implementation matters

1. Testing Different Indefinite-Lived Intangible Assets on Different Dates

ASC 350 allows an entity to assign different annual impairment testing dates to different indefinite-lived intangible assets or units of account. This flexibility acknowledges that various assets may have different operational cycles, risk profiles, or business contexts that justify staggered testing dates.

Key Considerations

1. Consistency in Testing

- Once a specific annual testing date is established for a particular asset, the entity must use that date consistently from year to year, unless a change is justified.

2. Documented Rationale

- Assigning different testing dates should be supported by a clear rationale, such as alignment with internal reporting cycles, business seasonality, or strategic timing.

3. Triggering Events Still Apply

- Regardless of the annual test date, interim testing is still required if a triggering event suggests that the asset may be impaired before the next scheduled test.

Examples of When Different Dates May Be Appropriate

- Trademarks vs. Licenses:** A company may test its trademark portfolio in Q1 and its licensing agreements in Q3 to align with internal budgeting and performance review processes
- Geographical Separation:** Assets related to international operations may be tested at different times due to local reporting requirements or business cycles.

2. Changing the Date of the Impairment Test for Annual Indefinite-Lived Intangible Assets

- Under ASC 350-30, entities are allowed to change the annual impairment testing date for indefinite-lived intangible assets. However, such changes must be made with justification and consistency to maintain the integrity of financial reporting and avoid manipulation of impairment timing.
- The entity must ensure that no more than one year elapses between tests and should not change its testing date to either avoid or accelerate an impairment loss.
- The following are some of the examples of valid reasons for changing the dates of the Impairment test-
 - Alignment with internal budgeting or forecasting processes
 - Restructuring of reporting units or asset portfolios
 - Change in fiscal year or reporting calendar
 - Operational reorganizations (e.g., M&A, spin-offs)
- Once a new testing date is established, the entity must consistently apply that date in subsequent periods unless another justified change occurs.

Illustrative example:

A company traditionally tests its indefinite-lived customer relationship assets in December, aligned with the year-end close. Due to a recent operational realignment, the company now prepares strategic forecasts in October. The entity decides to move the annual test to October going forward and documents the change as better aligned with management's financial planning cycle.

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Comparison with IFRS

3. Impairment testing of Indefinite-Lived Intangible Assets recognized on a provisional basis.

- When an indefinite-lived intangible asset is acquired in a business combination, the acquiring entity may initially recognize the asset at a provisional value during the measurement period (up to one year from the acquisition date) as permitted by ASC 805. Despite the provisional nature of the valuation, the entity is still subject to the impairment testing requirements of ASC 350-30.
- If the entity identifies material adjustments to the asset's carrying amount during the measurement period, any impairment testing performed prior to those adjustments should be retrospectively updated based on the revised carrying amount. This update is necessary to evaluate whether the original impairment conclusion would have changed as a result of the adjustments.
- In cases where measurement-period adjustments result in either an additional impairment loss or a reduction of a previously recognized impairment, the change should be recorded in the current reporting period. If the impact is material, appropriate disclosure is also required.

Illustrative example:

An entity performs its annual impairment testing on October 1. It acquires a brand asset on September 15 in a business combination and records it at a provisional value. During the following March, the value is adjusted upward based on the finalized appraisal. The entity must retrospectively evaluate whether this updated value would have altered the October 1 impairment test result. If it would have led to a different impairment conclusion, the entity must recognize the impact in March's reporting period and disclose the change if it is material.

4. ASC 350-40 - Internal use Software

ASC 350-40 provides explicit guidance on costs incurred for computer software developed or obtained for internal use.

Under the existing guidance on accounting for costs incurred towards internal use software, Subtopic illustrates various stages of development, i.e., the preliminary project stage, the application development stage, and the post-implementation stage. Whether cost incurred need to be expensed off or capitalized is depended upon the nature of the costs and the project stage to which it relates. Applying this guidance is challenging, particularly in an iterative development environment.

4.1

Initial Recognition and Measurement Principles

stages for software development



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	Activities	Accounting treatment
1.	- This stage involves conceptual formulation and evaluation of alternatives, determination of the existence of required technology, and final selection of alternatives. - The activities include planning, research, evaluating proposals, determining desired functionality, and assessing technological feasibility.	All internal and external costs incurred in this stage are expensed as incurred.
2.	- This is the stage where development of the internal-use software occurs. - The activities in this stage include designing the software, coding, installing the hardware, and testing the software.	- Certain costs incurred during the application development stage are capitalized while others are expensed. Costs Capitalized during the Application Development Stage Costs that are directly related to the development of the software are capitalized. These costs include: - External direct costs of materials and services consumed in developing or obtaining internal-use software, such as fees paid to third parties for services provided to develop the software during this stage, costs incurred to obtain computer software from third parties, and travel expenses incurred by employees in their duties directly associated with developing the internal-use software; - Payroll and payroll-related costs (for example, costs of employee benefits) for employees who are directly associated with and who devote time to the internal-use software project, to the extent of the time spent directly on the project; and - Interest cost incurred while developing internal-use computer software. Commencement of capitalization Capitalization during this stage begins subject to the fulfilment of the following criteria- - The preliminary project stage is completed. - Management, with the relevant authority, explicitly or implicitly authorizes and commits to funding the project, and it is probable that the project will be completed and the software will be used for its intended function Cessation of Capitalization: Capitalization stops when the software is substantially complete and ready for its intended use, after all substantial testing is completed. Costs expensed During the Application Development Stage Costs that are expensed off during this stage include: - Training costs; - Data conversion costs, such as those incurred during purging or cleansing of existing data, reconciliation or balancing of the old data and the data in the new system, creation of new or additional data, and conversion of old data to the new system; and - General and administrative and other overhead costs.

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3.	At this point, the internal-use software is already complete and is in use. Activities in this stage include training and routine maintenance of the internal-use software.	Internal and external costs incurred during the post-implementation-operation stage are expensed as incurred.
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4.2 Subsequent Recognition and Measurement Principles

• Amortization Considerations

- Capitalized costs associated with internal-use software are amortized over the software's estimated useful life, typically using the straight-line method, unless another systematic and rational basis more accurately reflects its consumption.
- Amortization commences once the software is ready for its intended use, irrespective of whether it has been formally deployed. This readiness is achieved upon the completion of all significant testing.
- The start of amortization should be evaluated at the individual module or component level. For example, an accounting software system might comprise distinct modules such as a general ledger, accounts payable subledger, and accounts receivable subledger. Each of these can be considered a separate module within the larger system.
- However, if a specific software module's functionality is entirely contingent upon the completion of other modules (even if those dependent modules are not yet fully designed, but their completion is probable), then amortization for that module should be deferred until all such dependent modules are also ready for their intended use.

• Impairment Considerations

- Internal-use software, once capitalized, is considered a long-lived intangible asset and is subject to impairment testing as per the principles of ASC 360-10.
- When to Test for Impairment:** Impairment testing for internal-use software is not performed annually, but rather when **events or changes in circumstances indicate that its carrying amount may not be recoverable**. These "triggering events" suggest that the software's value might have significantly decreased. Examples include:
 - Significant adverse changes** in the extent or manner in which the software is being used, or its physical condition.
 - A **significant decrease in its market price** (if a comparable market exists for such software).
 - Technological obsolescence** that renders the software less useful or effective.
 - An **accumulation of costs significantly in excess** of the amount originally expected for the software's development or modification.
 - A **current period operating or cash flow loss** combined with a history of losses or a projection of continuing losses associated with the software's use.
 - A **decision to abandon or suspend** the software project before it is ready for its intended use, or a decision to replace it with new software.
 - Significant **adverse changes in legal factors** or the business climate.
- Unit of account:** Internal-use software does not generate independent cash flows on its own. In such cases, the software is grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other asset groups. This "asset group" is then tested for impairment. The impairment loss, if any, is allocated to the long-lived assets within that group on a pro-rata basis.
- Two-Step Impairment Test:** If a triggering event occurs, a two-step impairment test is performed:
 - Step 1: Recoverability Test (Undiscounted Cash Flows)**
 - The company estimates the undiscounted future cash flows expected to be generated from the use and eventual disposition of the software (or the asset group that includes the software).

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- If the carrying amount (book value) of the software (or asset group) is greater than the sum of these undiscounted future cash flows, then the asset is considered not recoverable, and an impairment loss may exist.
- If the undiscounted cash flows are greater than or equal to the carrying amount, no impairment is recognized, and no further steps are needed.

Step 2: Measurement of Impairment Loss (Fair Value)

- If the software fails the recoverability test (i.e., its carrying amount exceeds undiscounted cash flows), an impairment loss is then measured.
- The impairment loss is the amount by which the **carrying amount of the software exceeds its fair value**.
- Fair value is typically determined using valuation techniques such as market approaches (if comparable assets exist), income approaches (discounted cash flow analysis using discounted future cash flows), or cost approaches. Impairment loss, once recognized, is not reversible.



Given the rapid technological advancements in AI, internal-use AI software may face higher risks of obsolescence. This means companies developing and using AI software need to be particularly diligent in:

- **Monitoring triggering events:** Rapid changes in AI technology, the emergence of superior algorithms or models, or a shift in the company's strategic use of AI could quickly lead to impairment indicators.
- **Estimating useful lives:** The useful life of AI software might be shorter than traditional software due to the pace of innovation, impacting both amortization and impairment analysis.
- **Valuing future cash flows:** Projecting undiscounted and discounted cash flows for AI software can be challenging due to inherent uncertainties in its future performance, adoption, and competitive landscape.

In summary, internal-use software, including AI software, is subject to a rigorous impairment testing process when events or changes in circumstances suggest its carrying amount may not be recoverable.



4.3 Implementation matters

1. Upgrades and enhancements

ASC 350-40 stipulates that upgrades and enhancements to existing internal-use software qualify as modifications resulting in additional functionality. For the expenditures related to such specified upgrades and enhancements to be capitalized, it must be probable that these expenditures will indeed lead to the aforementioned additional functionality.

In essence, costs incurred for improvements to internal-use software are eligible for capitalization only when there is a high likelihood that these expenditures will introduce new capabilities or significantly augment existing functionalities of the software asset.

Modifications to existing internal-use software that result in additional functionality (i.e., enabling the software to perform tasks it was previously incapable of performing) are accounted for similar to new software development, meaning qualifying costs are capitalized following the rules of the Application Development Stage.

Costs for routine maintenance, bug fixes, and minor upgrades that do not add significant new functionality are expensed as incurred. If a company cannot reasonably separate maintenance costs from minor upgrades/enhancements, the entire cost should be expensed.

2. Costs related to the development of Artificial Intelligence (AI) software/ tools

Within the realm of AI software development, two distinct categories of expenditures frequently arise that necessitate evaluation for their eligibility for capitalization:

- Expenditures incurred in the development of the underlying **algorithm (AI algorithm development cost)**.
- The cost of **acquiring data** is utilized for model training or to facilitate machine learning processes. (**Data purchase cost**)

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Accounting consideration related to AI Algorithm Development Costs

- The algorithm forms the foundational conceptual and functional core of an AI software program, essentially acting as its problem-solving engine. An algorithm, by definition, is a systematic procedure, often involving iterative steps, designed to resolve a problem. When this procedure is translated into an AI software program through coding, the associated costs are evaluated for capitalization in a manner consistent with general software development accounting principles.
- Such coding costs typically represent either fees paid to external parties or internal payroll-related expenditures for employees performing the coding. In both scenarios, these direct costs of software development are eligible for capitalization. Furthermore, when an AI-enabled machine is utilized in the process of developing the algorithm itself, the resulting costs, encompassing expenses for personnel, equipment, and cloud services, also qualify for capitalization.



- **Non-Coding Costs in AI Algorithm Development:** Determining the capitalizability of costs not directly related to software coding, particularly those associated with algorithm development, presents more complex judgments. This complexity arises because algorithms may be conceived and refined by specialists (e.g., mathematicians, researchers, engineers) prior to being coded into software, or they might be developed concurrently by software engineers during the coding process. The critical factor in appropriately accounting for these non-coding activities is whether they are:

1. **Directly attributable to the development of the software's algorithm,** thereby qualifying for capitalization under ASC 350-40.
 2. **Primarily, research and development (R&D) expenses** incurred in the creation of a distinct, internally developed intangible asset separate from the software, which would necessitate expensing.
- Significant professional judgment is required to make this distinction.

Accounting consideration related to the data purchase cost

- Data is a crucial input for AI software. To generate accurate and relevant results, AI software requires interaction with extensive datasets pertinent to its specific application. Purchased data used in AI software development is not considered software; it is an intangible asset governed by **ASC 350-30**. When such data is acquired for a software development project, the critical factor for its accounting treatment hinges on whether it possesses an alternative future use in other research and development (R&D) endeavors, other software projects, or for other purposes.
- If purchased data can be utilized to train multiple AI models (software programs), it is deemed to have an alternative future use. In such instances, ASC 730-10-25-2(c) mandates that the cost of these intangible assets, acquired for R&D but possessing alternative future uses, be accounted for under the intangible asset guidance within ASC 350.
- If the data has no alternative future use which is specific to a single project and cannot be repurposed, its cost should be expensed as incurred.



We believe that in most cases, purchased data will indeed possess an alternative future use, making it subject to ASC 350's intangible asset guidance. Consequently, in these cases, the cost of the purchased data will be capitalized as an intangible asset and subsequently amortized over its useful life as per the guidance of ASC 350-30. The amortization expense will then be recognized as a cost of the activity in which the asset is used.

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FASBs' Proposed Accounting Standard Update (ASU)

On October 29, 2024, the FASB issued a proposed Accounting Standards Update (ASU) to update the guidance on accounting for internal-use software. On May 7, 2025, after discussions and deliberations on software cost accounting changes, FASB has issued directions to staff to finalize targeted improvements to improvise the internal-use software accounting guidance in ASC 350-40. The proposed amendment is intended to introduce new capitalization considerations and eliminate existing software project stage accounting guidance.

The proposed amendments **eliminate** references to the aforesaid prescriptive and **sequential stages of software development** in existing GAAP and require the same recognition guidance for all software within the scope of Subtopic 350-40. The improvement is intended to align the recognition requirements for internal-use software costs with those requirements for licensed, sold, or otherwise externally marketed software.

The amendments in proposed ASU are effective for annual reporting period beginning after December 15, 2027, and interim reporting periods in fiscal years beginning after December 15, 2027. Early adoption is permitted. It shall apply to all entities, including private companies.

Highlights of Proposed amendments to Sub-topic 35-40

As per the existing guidance, software development costs incurred for internal-use software are capitalized once the preliminary project stage is complete. With the key focus to remove all references to a sequential software development method (referred to as “project stages”) throughout Subtopic 350_40, the proposed ASU instead provides the following two criteria's in ASC 350-40-25-12 that must be met for entities to commence **capitalizing software costs**:

- Management, with the relevant authority, implicitly or explicitly **authorizes and commits** to funding a computer software project. **(Criterion 1)**
- It is **probable** that the project will be completed, and the software will be used to perform the function intended (referred to as the 'probable-to-complete recognition threshold'). **(Criterion 2)**

With a shift in software development process from a sequential/linear process in orientation with several stages to agile software development (i.e., lightly planned and completed through a series of shorter time-frame development sprints), there is a need to align the guidance as proposed by ASU, which can be applied to all types of software development.

To learn more about the amendment in ASU, refer to our recent publication titled, **Early Impressions “FASBs' Accounting Standard Update (ASU-2025-03) Business Combinations (Topic 805) and Consolidation (Topic 810).**



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5. ASC 350-50 – Website Development Cost**5.1 Initial Recognition and Measurement Principles**

ASC 350-50 categorizes website development activities into distinct stages, dictating whether associated costs should be expensed or capitalized.

Stage	Activities	Accounting Treatment
Planning	- Involves activities like evaluating the project's feasibility, defining its scope and objectives, and selecting a vendor or technology. - This stage is about initial conceptualization and decision-making.	- All costs incurred during this stage must be expensed as incurred. - These activities are considered similar to preliminary project activities in software development.
Development Stage	This stage encompasses the activities directly related to creating the website's functionality and content. It's subdivided based on the nature of the development:	
	Content Development: Costs to create, purchase, or license content (e.g., text, graphics, videos) uploaded to the website Application and Infrastructure Development: Costs for programming, coding, installing features, and establishing the technical framework of the site (e.g., databases, servers, security features).	Generally expensed as incurred, unless the content is expected to generate revenue or provide future economic benefits beyond the current period. These costs are generally capitalized. They are considered analogous to the costs of developing internal-use software.
Operating	This stage involves activities related to maintaining, managing, and making routine updates to the website. For example, Routine maintenance, hosting fees, minor content updates, debugging, and security patches.	All costs incurred in this stage are generally expensed as incurred .

5.2 Subsequent Recognition and Measurement Principles

In essence, ASC 350-50 provides specific guidance for websites but aligns closely with the principles in ASC 350-40 for internal-use software in respect of subsequent recognition and measurement principles.

For detailed guidance on amortization consideration and impairment consideration, refer to **Section 4. ASC 350-40 – Internal use Software above**.

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6. ASC 350-60 - Crypto Assets

Accounting for crypto assets under US GAAP has undergone significant changes recently, with the issuance of **ASU 2023-08, Intangibles—Goodwill and Other—Crypto Assets (Subtopic 350-60): Accounting for and Disclosure of Crypto Assets**. This new guidance, effective for fiscal years beginning after December 15, 2024 (meaning it's effective for calendar year-end companies starting January 1, 2025), fundamentally shifts how many commonly held crypto assets are accounted for.

Before ASU 2023-08, most cryptocurrencies were treated as indefinite-lived intangible assets under ASC 350 (Intangibles—Goodwill and Other). This meant they were recorded at historical cost and then tested for impairment. A key criticism of this approach was the “cost-less-impairment” model, which allowed for write-downs but no write-ups, failing to reflect the volatile nature and potential fair value increases of crypto assets.

Key Changes Introduced by ASU 2023-08 (ASC 350-60):

The new standard introduces a specific framework for “crypto assets” that meet certain criteria. These criteria generally include:

- Meeting the definition of an intangible asset as defined in the Codification.
- Not providing the holder with enforceable rights to or claims on underlying goods, services, or other assets.
- Being created or residing on a distributed ledger based on blockchain or similar technology.
- Being fungible (interchangeable).
- Not being created or issued by the reporting entity or its related parties.

For crypto assets that meet these criteria, the key accounting considerations are:

6.1 Initial Recognition and Measurement Principles

ASC 350-60 specifies that entities should initially measure and recognize crypto assets by applying other US GAAP. A company should evaluate the nature of the transaction through which it obtains crypto assets to determine their initial accounting. The following summarizes several ways in which crypto assets can be obtained and the corresponding guidance that is generally applied to initially measure and recognize them.

Nature of transaction through which an entity obtains crypto assets	Activities Relevant guidance to consider	Initial Measurement
Acquired in an asset acquisition	• ASC 350-10 (references ASC 805-50)	Cost (allocated on a relatively fair value basis)
Received in exchange for providing goods or services to a customer	• ASC 606	Noncash consideration recognized at fair value at contract inception
Received in exchange for performing mining or staking activities for a non-customer	• ASC 606 (by analogy)	Noncash consideration recognized at fair value at contract inception
Acquired in a business combination	• ASC 805	Acquisition-date fair value
Received in exchange for nonfinancial assets (e.g., other crypto assets)	• ASC 610-20	Noncash consideration recognized at fair value at contract inception
	• ASC 845	Noncash consideration recognized based on the fair value of the asset given up or, if more clearly evident, the fair value of the asset received

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6.2. Subsequent Recognition and Measurement Principles

6.2 Subsequent Recognition and Measurement Principles

Entities are required to measure in-scope crypto assets at fair value each reporting period. Changes in fair value (unrealized gains and losses) are recognized directly in net income for each reporting period. This is a significant departure from the old impairment model, where only losses were recognized. Fair value measurement should follow the guidance in *ASC 820, Fair Value Measurement*.



COMPARISON WITH IFRS

Purpose	US GAAP (Generally Accepted Accounting Principles) and IFRS (International Financial Reporting Standards) have some significant differences in their treatment of intangible assets, including recognition, measurement, amortization, and impairment. These differences can impact a company's financial statements and comparability across different regions.
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Comparison with IFRS

The following table summarizes the key differences:

Key Provision	US GAAP (ASC 350)	IFRS (IAS 38)
Assignment of Goodwill	Goodwill is tested for impairment at the reporting unit level, which is generally an operating segment or one level below an operating segment (component level).	- Goodwill is allocated to a cash-generating unit (CGU) or a group of CGUs. - A CGU is the smallest identifiable group of assets that generates largely independent cash inflows. It cannot be larger than an operating segment.
Subsequent accounting for intangible assets	Cost Model ONLY: Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Revaluation is not permitted.	Choice of Models: 1. Cost Model: Cost less accumulated amortization and accumulated impairment losses. 2. Revaluation Model: Fair value at the date of revaluation, with less subsequent accumulated amortization and impairment losses. Requires an active market (rare for many intangibles). Changes in revaluation are recognized in Other Comprehensive Income (OCI).
Qualitative impairment assessment – indefinite-lived intangible assets	- Companies may first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. - If a company concludes that is the case, it must determine the fair value of the asset, compare it to its carrying amount and recognize an impairment charge, if any. If it concludes otherwise, it can stop.	A similar optional qualitative assessment does not exist. Each indefinite-lived intangible asset (or cash generating unit (CGU) to which it belongs) must be tested annually for impairment.
Qualitative assessment – goodwill	- Companies may first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. - If a company concludes that it is the case, it must perform the quantitative impairment test. If it concludes otherwise, it can stop.	No similar optional qualitative assessment exists. Each CGU (or group of CGUs) must be tested annually for impairment.

Foreword

Purpose

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Comparison with IFRS

Method of determining and calculating impairment loss – goodwill	The reporting unit's fair value is compared with its carrying amount. If the carrying amount of the reporting unit exceeds the fair value, the entity will record an impairment loss based on the difference. The impairment loss will be limited to the amount of goodwill allocated to that reporting unit.	- A one-step goodwill impairment test is performed at the CGU level. The CGU's (or group of CGUs') carrying amount, including goodwill, is compared to its recoverable amount (greater of fair value less cost to sell and value in use). Value in use is defined as the present value of the future cash flows expected to be derived from an asset or CGU. - Any impairment loss (amount by which the CGU's carrying amount, including goodwill, exceeds its recoverable amount) is allocated first to reduce goodwill to zero, then, subject to certain limitations, the carrying amount of other assets in the CGU is reduced pro rata based.
Level of assessment and recognition and measurement of an impairment loss – indefinite-lived intangible assets	Level of Assessment for Impairment Testing Indefinite-lived intangible assets are generally assessed for impairment individually. However, if they function as a single, inseparable unit with other indefinite-lived intangible assets, they can be tested together. They cannot be combined with finite-lived intangible assets or goodwill for impairment testing. Recognition and Measurement of an Impairment Loss An impairment loss is recognized for the excess of the carrying amount of the indefinite-lived intangible asset over its fair value.	Level of Assessment for Impairment Testing If an indefinite-lived intangible asset's cash flows aren't largely independent, it should be impairment tested as part of its Cash-Generating Unit (CGU), unless specific exceptions apply. Recognition and Measurement of an Impairment Loss An impairment loss is recognized for the excess of the carrying amount of the indefinite-lived intangible asset over its recoverable amount (higher of fair value less costs to sell and value in use).
Reversal of impairment loss	Reversal of impairment losses is not permitted (except for assets held for sale).	Reversal of impairment losses is required if the recoverable amount increases, except for goodwill.
Goodwill amortization accounting alternative for private companies and NFPs	Eligible private companies and NFPs may elect to apply the goodwill amortization accounting alternative for the subsequent measurement.	A similar accounting alternative does not exist.

A TEAM THAT YOU CAN TRUST TO DELIVER



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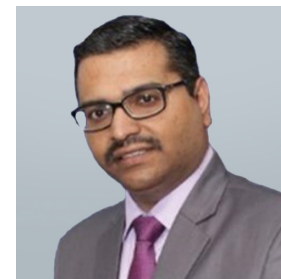
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