

EXPOSURE DRAFT OF A PROPOSED IFRS for Small and Medium-sized Entities

Paragraphs 26.21-26.22

26.21 The principles in paragraphs 26.5–26.14 for recognising and measuring impairment of assets apply to goodwill. Therefore, at each reporting date the entity shall assess whether there is any indication that goodwill may be impaired. In addition to considering the indicators of impairment in paragraph 26.6, the entity shall also consider whether:

- (a) since acquisition, the acquired entity to which the goodwill relates has performed significantly worse than expected;
- (b) the acquired entity to which the goodwill relates is being restructured, held for sale or abandoned; or
- (c) significant impairment losses have been recognised for other assets of the acquired entity to which the goodwill relates.

26.22 If there is an indication that goodwill has been impaired the entity shall follow a two-step process to determine whether to recognise an impairment loss:

Step 1:

- (a) allocate the goodwill to the **component(s) of the entity** that benefit from the goodwill (generally the lowest level within the entity at which the goodwill is monitored for internal management purposes);
- (b) measure the fair value of each component in its entirety, including the goodwill;
- (c) compare the fair value of the component with the carrying amount of the component;
- (d) if the fair value of the component equals or exceeds its carrying amount, neither the component nor the goodwill is impaired; if the fair value of the component is less than its carrying amount, the difference is an impairment loss that shall be recognised in accordance with Step 2.

Step 2:

- (a) write down the component's goodwill by the amount of the loss determined in Step 1(d) and recognise an impairment loss in profit or loss;
- (b) if the amount of the loss determined in Step 1(d) exceeds the carrying amount of the component's goodwill, the excess shall be recognised as an impairment loss in profit or loss. That excess shall be allocated to the identifiable non-cash assets and liabilities, including contingent liabilities, of the component on the basis of their relative fair values.

Goodwill impairment

BC79 In their responses to the recognition and measurement questionnaire and at the round-table meetings, many preparers and auditors of SMEs' financial statements said that the requirement in IFRS 3 *Business Combinations* for an annual calculation of the recoverable amount of goodwill is onerous for SMEs because of the expertise and cost involved. They proposed, as an alternative, that SMEs should be required to calculate the recoverable amount of goodwill only if impairment is indicated. They proposed, further,

that the *IFRS for SMEs* should include a list of indicators of impairment of goodwill as guidance for SMEs. The Board agreed with those proposals. The draft *IFRS for SMEs* proposes an indicator approach and includes a list of indicators based on both internal and external sources of information.