Financial reporting developments

A comprehensive guide

Impairment or disposal of long-lived assets

Revised December 2023

EY

Building a better working world

To our clients and other friends

ASC 360-10, *Impairment and Disposal of Long-Lived Assets*, provides accounting guidance for impairments of assets that are held for use, held for sale and to be disposed of by other means. In one of its more challenging aspects, ASC 360-10 requires the use of fair value measurements for impairment of assets that are unique and not widely traded. The following publication provides an overview of the accounting for asset impairments as well as interpretive guidance.

We hope this publication will help you understand the accounting for the impairment or disposal of long-lived assets. We are available to assist you in understanding and complying with this standard and are ready to answer your particular concerns and questions.

Ernst & Young LLP

December 2023

Contents

1 Overview 1
1.1 Introduction 1
1.2 Scope 2
1.3 Long-lived assets to be held and used 5
1.3.1 Indicators of impairment — Step 1 5
1.3.2 Test for recoverability — Step 2 5
1.3.3 Measurement of an impairment loss — Step 3 6
1.3.4 Allocation of an impairment loss 6
1.3.5 Reporting and disclosure of impairments 6
1.4 Long-lived assets to be disposed of other than by sale 7
1.5 Long-lived assets to be disposed of by sale 7
1.5.1 Held for sale criteria 7
1.5.2 Measurement 8
1.5.3 Grouping of assets held for sale 8
1.5.4 Changes to a plan of sale 8
2 Long-lived assets to be held and used 9
2.1 Overview 9
2.2 Indicators of impairment — Step 1 10
2.2.1 Depreciation estimates 11
2.3 Test for recoverability—Step 2 12
2.3.1 Grouping long-lived assets to be held and used 12
2.3.1.1 Debt in asset groups 14
2.3.1.2 Impairment indicators for individual assets in an asset group 15
2.3.1.3 Entity-wide asset groupings 15
2.3.1.4 Goodwill and other assets or liabilities in asset groups 16
2.3.1.5 Cumulative translation adjustments in impairment of asset groups 17
2.3.2 Estimates of future cash flows used to test a long-lived asset for recoverability 18
2.3.2.1 Cash flow estimation approach 18
2.3.2.1.1 Consideration of taxes in cash flow estimation 20
2.3.2.2 Probability-weighted and best estimate cash flow approaches 21
2.3.2.3 Cash flow estimation period 23
2.3.2.4 Asset-related expenditures for a long-lived asset in use 24
2.3.2.5 Asset-related expenditures for a long-lived asset under development 25
2.3.2.6 Timing of estimates 26
2.3.2.7 Effect of asset retirement obligations on cash flow estimates 27
2.3.2.8 Effect of environmental exit costs on cash flow estimates used in the recoverability test 27
2.3.2.9 Cash flow estimates for certain intangible assets 30
2.3.2.10 Performing the test for recoverability 30

2.4 Measuring an impairment — Step 3 31
2.4.1 Fair value — Overview of ASC 820 32
2.4.1.1 Exit price 32
2.4.1.2 Highest and best use 32
2.4.1.3 Risk premiums 33
2.4.1.4 Valuation techniques 33
2.4.2 Cash flows used in the recoverability test versus those used to determine fair value 33
2.4.3 Unit of valuation and unit of account 34
2.4.4 Considerations in assessing appraisals 35
2.4.5 Present value techniques 36
2.4.5.1 Discount rate adjustment technique 37
2.4.5.2 Expected present value technique 38
2.4.6 Considerations in developing valuation assumptions 40
2.4.7 Consideration of debt in the fair value of an asset group 40
2.5 Allocation of an impairment loss 41
2.6 New cost basis 42
2.7 Impairment of right-of-use assets (after the adoption of ASC 842) (updated May 2023) 43
2.7.1 Right-of-use assets — test for recoverability (Step 2) (updated August 2021) 44
2.7.2 Right-of-use assets — measuring an impairment (Step 3) (updated August 2021) 47
2.7.3 Abandonment of right-of-use assets (updated August 2021) 50
2.8 Reporting and disclosure 54
2.8.1 Early warning disclosures 55

3 Long-lived assets to be disposed of other than by sale 57

3.1 Long-lived assets to be abandoned 57
3.2 Long-lived asset to be exchanged or to be distributed to owners in a spin-off 59
3.3 SEC staff views — spin-off of a subsidiary 60

4 Long-lived assets to be disposed of by sale 61

4.1 Recognition 61
4.1.1 Held for sale criteria 62
4.1.2 Held for sale criteria met after the balance sheet date but before issuance of financial statements 69
4.1.3 Grouping assets to be disposed of by sale 69
4.1.3.1 Allocating goodwill to a disposal group 70
4.1.3.2 Reassessment of allocated goodwill to a disposal group 71
4.2 Measurement 72
4.2.1 ASC 820 and fair value less costs to sell 73
4.2.2 Costs to sell 73
4.2.3 Initial adjustment to fair value less cost to sell and interaction with other standards 74
4.2.3.1 Individual long-lived assets 74
4.2.3.2 Disposal groups (updated May 2023) 74
4.2.3.3 SEC staff views — recording impairment losses for disposal groups 76
4.2.4 Subsequent changes to fair value less cost to sell 77
4.2.5 Effect of a sales contract on fair value for assets held for sale 78
4.2.6 Depreciation 78
4.2.7 Newly acquired long-lived assets to be sold 78
4.2.8 Accounting for foreclosed assets received in settlement of a receivable 79

4.3 Changes to a plan of sale 83
4.4 Cumulative translation adjustments and other items of accumulated other comprehensive income in impairment of disposal groups (updated September 2022) 85
4.5 Presentation and disclosure 86

5 Industry-specific considerations 89

5.1 Real estate 89
5.1.1 Real estate developers 89
5.1.2 Real estate held for investment 89
5.2 Oil and gas 90
5.2.1 Grouping of assets 90
5.2.2 Cash flows used to test oil and gas properties for recoverability 90
5.2.3 Estimating fair value 91
5.2.4 Reserve estimate revisions and impairment 92
5.2.5 Asset retirement obligations and impairment of oil and gas properties 92
5.2.6 Oil and gas properties held for sale 93
5.3 Regulated operations 93
5.4 Not-for-profit organizations 93
5.4.1 Assets to be held and used 93
5.4.2 Presentation 93
5.5 Mining assets 93

A Abbreviations used in this publication A-1

B Glossary B-1

C Index of ASC references in this publication C-1

D Summary of important changes D-1

Notice to readers:

This publication includes excerpts from and references to the Financial Accounting Standards Board (FASB or Board) Accounting Standards Codification (Codification or ASC). The Codification uses a hierarchy that includes Topics, Subtopics, Sections and Paragraphs. Each Topic includes an Overall Subtopic that generally includes pervasive guidance for the Topic and additional Subtopics, as needed, with incremental or unique guidance. Each Subtopic includes Sections that in turn include numbered Paragraphs. Thus, a Codification reference includes the Topic (XXX), Subtopic (YY), Section (ZZ) and Paragraph (PP).

Throughout this publication references to guidance in the Codification are shown using these reference numbers. References are also made to certain pre-Codification standards (and specific sections or paragraphs of pre-Codification standards) in situations in which the content being discussed is excluded from the Codification.

This publication has been carefully prepared, but it necessarily contains information in summary form and is therefore intended for general guidance only; it is not intended to be a substitute for detailed research or the exercise of professional judgment. The information presented in this publication should not be construed as legal, tax, accounting, or any other professional advice or service. Ernst & Young LLP can accept no responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. You should consult with Ernst & Young LLP or other professional advisors familiar with your particular factual situation for advice concerning specific audit, tax or other matters before making any decisions.

Portions of FASB publications reprinted with permission. Copyright Financial Accounting Standards Board, 801 Main Avenue, P.O. Box 5116, Norwalk, CT 06856-5116, USA. Portions of AICPA Statements of Position, Technical Practice Aids and other AICPA publications reprinted with permission. Copyright American Institute of Certified Public Accountants, 1345 Avenue of the Americas, 27th Floor, New York, NY 10105, USA. Copies of complete documents are available from the FASB and the AICPA.

1 Overview

1.1 Introduction

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Overview and Background

General

360-10-05-2

The guidance in the Overall Subtopic is presented in the following two Subsections:

a. The General Subsections address the accounting and reporting for property, plant, and equipment, including guidance for accumulated depreciation.

b. The Impairment or Disposal of Long-Lived Assets Subsections retain the pervasive guidance for recognizing and measuring the **impairment** of long-lived assets and for long-lived assets to be disposed of.

Impairment or Disposal of Long-Lived Assets

360-10-05-4

The Impairment or Disposal of Long-Lived Assets Subsections provide guidance for:

a. Recognition and measurement of the **impairment** of long-lived assets to be held and used

b. Measurement of long-lived assets to be disposed of by sale

c. Disclosures about the impairment or disposal of long-lived assets and disposals of individually significant **components of an entity.**

360-10-05-5

For long-lived assets disposed of or classified as held for sale, different presentation and disclosures are required depending on the nature of the disposal. If the long-lived assets are a significant component of an entity, more extensive disclosures are required. Additionally, if the component of an entity meets the definition of discontinued operation in paragraph 205-20-45-1B, an entity shall refer to Subtopic 205-20 for the presentation and disclosure requirements for discontinued operations (see the flowchart in paragraph 360-10-55-18A for an illustration).

360-10-05-6

This Subsection provides guidance that focuses on developing estimates of future cash flows used to test for recoverability, including the:

a. Cash flow estimation approach

b. Cash flow estimation period

c. Types of asset-related expenditures that should be considered in developing estimates of future cash flows.

The accounting for the impairment or disposal of long-lived assets is primarily addressed in the Impairment or Disposal of Long-Lived Asset Subsections of ASC 360-10 (referred to simply as "ASC 360-10" in the remainder of this publication).

This section summarizes the basic requirements of ASC 360-10. Section 2 provides more detailed information on the recognition and measurement of impairments of long-lived assets (asset groups) held and used, as well as estimates of future cash flows and fair value. Section 3 discusses long-lived assets to be disposed of other than by sale (i.e., by abandonment, exchanged for a similar productive long-lived asset, or distributed in a spin-off), and section 4 provides detailed information and practical guidance about long-lived assets (disposal groups) that are to be disposed of by sale. Section 5 discusses industry-specific considerations for the real estate, oil and gas, regulated industries and not-for-profit organizations.

1.2 Scope

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Scope and Scope Exceptions

General

360-10-15-1

The General Subsection of this Section establishes the pervasive scope for this Subtopic, with specific exceptions noted in the other Subsections of this Section.

360-10-15-2

The guidance in this Subtopic applies to all entities.

Impairment or Disposal of Long-Lived Assets

360-10-15-3

The Impairment or Disposal of Long-Lived Assets Subsections follow the same Scope and Scope Exceptions as outlined in the General Subsection of this Subtopic, see paragraph 360-10-15-1, with specific transaction exceptions noted below.

360-10-15-4

The guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the following transactions and activities:

a. Except as indicated in (b) and the following paragraph, all of the transactions and activities related to recognized long-lived assets of an entity to be held and used or to be disposed of, including:
   1. Capital leases of lessees
   2. Long-lived assets of lessors subject to operating leases
   3. Proved oil and gas properties that are being accounted for using the successful-efforts method of accounting
   4. Long-term prepaid assets.

b. The following transactions and activities related to assets and liabilities that are considered part of an **asset group** or a **disposal group**:
   1. If a long-lived asset (or assets) is part of a group that includes other assets and liabilities not covered by the Impairment or Disposal of Long-Lived Assets Subsections, the guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the group. In those situations, the unit of accounting for the long-lived asset is its group. For a long-lived asset

or assets to be held and used, that group is referred to as an asset group. For a long-lived asset or assets to be disposed of by sale or otherwise, that group is referred to as a disposal group. Examples of liabilities included in a disposal group are legal obligations that transfer with a long-lived asset, such as certain environmental obligations, and obligations that, for business reasons, a potential buyer would prefer to settle when assumed as part of a group, such as warranty obligations that relate to an acquired customer base.

2. The guidance in the Impairment or Disposal of Long-Lived Assets Subsections does not change generally accepted accounting principles (GAAP) applicable to those other individual assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by the Impairment or Disposal of Long-Lived Assets Subsections that are included in such groups.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2021* **| Transition Guidance:** 842-10-65-1

Editor's note: The content of paragraph 360-10-15-4 will change upon the adoption of ASU 2016-02, *Leases.*

The guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the following transactions and activities:

a. Except as indicated in (b) and the following paragraph, all of the transactions and activities related to recognized long-lived assets of an entity to be held and used or to be disposed of, including:
   1. **Right-of-use assets** of **lessees**
   2. Long-lived assets of lessors subject to operating leases
   3. Proved oil and gas properties that are being accounted for using the successful-efforts method of accounting
   4. Long-term prepaid assets.

b. The following transactions and activities related to assets and liabilities that are considered part of an **asset group** or a **disposal group**:
   1. If a long-lived asset (or assets) is part of a group that includes other assets and liabilities not covered by the Impairment or Disposal of Long-Lived Assets Subsections, the guidance in the Impairment or Disposal of Long-Lived Assets Subsections applies to the group. In those situations, the unit of accounting for the long-lived asset is its group. For a long-lived asset or assets to be held and used, that group is referred to as an asset group. For a long-lived asset or assets to be disposed of by sale or otherwise, that group is referred to as a disposal group. Examples of liabilities included in a disposal group are legal obligations that transfer with a long-lived asset, such as certain environmental obligations, and obligations that, for business reasons, a potential buyer would prefer to settle when assumed as part of a group, such as warranty obligations that relate to an acquired customer base.
   2. The guidance in the Impairment or Disposal of Long-Lived Assets Subsections does not change generally accepted accounting principles (GAAP) applicable to those other individual assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by the Impairment or Disposal of Long-Lived Assets Subsections that are included in such groups.

360-10-15-5

The guidance in the Impairment or Disposal of Long-Lived Assets Subsections does not apply to the following transactions and activities:

a. Goodwill

b. Intangible assets not being amortized that are to be held and used

c. Servicing assets

d. Financial instruments, including investments in equity securities accounted for under the cost or equity method

e. Deferred policy acquisition costs

f. Deferred tax assets

g. Unproved oil and gas properties that are being accounted for using the successful-efforts method of accounting

h. Oil and gas properties that are accounted for using the full-cost method of accounting as prescribed by the Securities and Exchange Commission (SEC) (see Regulation S-X, Rule 4-10, Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975)

i. Certain other long-lived assets for which the accounting is prescribed elsewhere in the standards:

   1. For guidance on financial reporting in the record and music industry, see Topic 928.

   2. For guidance on financial reporting in the broadcasting industry, see Topic 920.

   3. For guidance on accounting for the costs of computer software to be sold, leased, or otherwise marketed, see Subtopic 985-20.

   4. For guidance on accounting for abandonments and disallowances of plant costs for regulated entities, see Subtopic 980-360.

ASC 360-10 applies to recognized individual long-lived assets of a business enterprise and not-for-profit organizations to be held and used or to be disposed of, as well as to groups of assets, which may include assets and liabilities other than long-lived assets. However, these groups must also contain long-lived assets. Following the adoption of ASU 2016-02, lessees' right-of-use (ROU) assets, for both operating and finance leases, are subject to the impairment guidance in ASC 360-10. Note that the impairment guidance in ASC 360-10 applies to all long-lived assets, including definite-lived intangible assets, as noted in ASC 350-30:

Excerpt from Accounting Standards Codification

Intangibles—Goodwill and Other — General Intangibles Other Than Goodwill

Subsequent Measurement

350-30-35-14

An intangible asset that is subject to amortization shall be reviewed for impairment in accordance with the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 by applying the recognition and measurement provisions in paragraphs 360-10-35-17 through 35-35. In accordance with the Impairment or Disposal of Long–Lived Assets Subsections of Subtopic 360-10, an impairment loss shall be recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its fair value. After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited.

The exclusions noted in ASC 360-10-15-5 should not be interpreted to imply that entire industries or types of entities (e.g., banking, insurance, regulated, record and music, software, oil and gas, real estate) are excluded from the scope of ASC 360-10. The exclusions apply only to long-lived assets whose accounting is prescribed by other generally accepting accounting principles (GAAP). It is possible for an entity to have some of its long-lived assets accounted for under ASC 360-10 and other long-lived assets accounted for under other GAAP.

1.3 Long-lived assets to be held and used

The following are the required steps to identify, recognize and measure the impairment of a long-lived asset (group) to be held and used:

1. **Indicators of impairment** — Consider whether indicators of impairment are present.
2. **Test for recoverability** — If indicators are present, perform a recoverability test by comparing the sum of the estimated undiscounted future cash flows attributable to the long-lived asset (group) in question to its carrying amount (as a reminder, entities cannot record an impairment for a held and used asset unless the asset first fails this recoverability test).
3. **Measurement of an impairment** — If the undiscounted cash flows used in the test for recoverability are less than the carrying amount of the long-lived asset (group), determine the fair value of the long-lived asset (group) and recognize an impairment loss if the carrying amount of the long-lived asset (group) exceeds its fair value.

1.3.1 Indicators of impairment — Step 1

A long-lived asset (group) that is held and used must be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the long-lived asset (group) might not be recoverable (i.e., information indicates that an impairment might exist). As a result, entities are not required to perform an impairment analysis (i.e., test the asset (group) for recoverability and potentially measure an impairment loss) if indicators of impairment are not present. Instead, entities would assess the need for an impairment write-down only if an indicator of impairment (e.g., a significant decrease in the market value of a long-lived asset (group)) is present. Entities are responsible for routinely assessing whether impairment indicators are present and should have systems or processes to assist in the identification of potential impairment indicators.

1.3.2 Test for recoverability — Step 2

If impairment indicators are present or if other circumstances indicate that an impairment may exist, management must then determine whether an impairment loss should be recognized. An impairment loss can be recognized for a long-lived asset (group) that is held and used only if the sum of its estimated future undiscounted cash flows used to test for recoverability is less than its carrying value.

Estimates of future cash flows used to test a long-lived asset (group) for recoverability include only the future cash flows (cash inflows and associated cash outflows) that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the long-lived asset (group). Estimates of future cash flows are based on an entity's own assumptions about its use of a long-lived asset (group). These entity-specific assumptions could give rise to different cash flows than the cash flows that an entity would use for purposes of measuring fair value in Step 3.

The cash flow estimation period is based on the remaining useful life of the long-lived asset (group) to the entity. When long-lived assets are grouped (see further discussion regarding the grouping of long-lived assets in section 2.3.1) for purposes of performing the recoverability test, the remaining useful life of the asset group is based on the useful life of the primary asset. The primary asset of the asset group is the principal long-lived tangible asset being depreciated (or identifiable intangible asset being amortized) that is the most significant component asset from which the group derives its cash-flow-generating capacity.

Estimates of future cash flows used to test the recoverability of a long-lived asset (group) that is in use, including a long-lived asset (group) for which development is substantially complete, should be based on the existing service potential of the asset (group) at the date tested. Existing service potential encompasses the long-lived asset's remaining estimated useful life, cash flow generating capacity and for tangible assets, the physical output capacity. The estimated cash flows include cash flows associated with future expenditures necessary to maintain the existing service potential, including those that replace the service potential of component parts (e.g., the roof of a building), but they should not include cash flows associated with future capital expenditures that would increase the service potential.

The guidance in ASC 360-10 permits (and encourages) but does not require the use of a probability-weighted cash flow estimation approach in performing the recoverability test.

1.3.3 Measurement of an impairment loss — Step 3

If it is determined that a long-lived asset (group) is not recoverable, an impairment loss would be calculated based on the excess of the carrying amount of the long-lived asset (group) over the fair value of the long-lived asset (group).

Fair value used in Step 3 is determined using the guidance in ASC 820. ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

The guidance in ASC 820 is principles-based guidance intended to provide a framework for measuring fair value in US GAAP. This framework is based on a number of key concepts including unit of account, exit price, valuation premise, highest and best use, principal market, market participant assumptions and the fair value hierarchy, which form the foundation of the fair value measurement approach to be utilized for financial reporting purposes. ASC 820 includes a single definition of fair value that should be used for financial reporting purposes, provides a framework for applying this definition and requires numerous disclosures about the use of fair value measurements in the financial statements. The guidance in ASC 820 incorporates financial theory and valuation techniques but is focused solely on how these concepts should be applied when determining fair value for financial reporting purposes.

We have provided information regarding the application of ASC 820 to long-lived assets being evaluated for impairment in section 2.4. Additional information regarding fair value measurements under ASC 820 can be found in our Financial reporting developments (FRD) publication, ***Fair value measurement***.

1.3.4 Allocation of an impairment loss

ASC 360-10 provides specific guidance on the allocation of an impairment loss to an asset group. It requires that an impairment loss reduce only the carrying amounts of the assets of the group that are covered by ASC 360-10. Thus, in no circumstance will goodwill, indefinite-lived intangibles, other assets excluded from the scope of ASC 360-10 or liabilities be affected by an impairment loss recognized under this guidance, even if those assets or liabilities are included in the asset group being tested for impairment. The impairment loss will reduce the carrying amount of the long-lived assets of a group covered by ASC 360-10 on a pro rata basis using the relative carrying amounts of those assets. However, the carrying amount of a long-lived asset of the group must not be reduced below its fair value.

1.3.5 Reporting and disclosure of impairments

An impairment loss is reported as a component of income from continuing operations before income taxes. In addition, an entity that reports an impairment loss is also required to disclose the following information in the notes to the financial statements:

- A description of the long-lived asset (group) that is impaired and the facts and circumstances leading to the impairment

- The amount of the impairment loss and the caption in the income statement in which the loss is aggregated, if not presented separately on the face of the income statement
- The method(s) used to determine fair value
- If applicable, the segment in which the impaired long-lived asset (group) is reported

1.4 Long-lived assets to be disposed of other than by sale

A long-lived asset (group) to be disposed of other than by sale (e.g., by abandonment, in exchange for a similar productive asset or in a distribution to owners in a spin-off) would continue to be classified as held and used until the long-lived asset (group) is disposed.

1.5 Long-lived assets to be disposed of by sale

1.5.1 Held for sale criteria

A long-lived asset (or disposal group) to be disposed of by sale (including an asset group considered a component of an entity) is considered held for sale when all of the following criteria for a qualifying plan of sale are met:

- Management, having the authority to approve the action, commits to a plan to sell the asset or disposal group
- The asset or disposal group is available for immediate sale (i.e., a seller currently has the intent and ability to transfer the asset (group) to a buyer) in its present condition, subject only to conditions that are usual and customary for sales of such assets or disposal groups
- An active program to locate a buyer and other actions required to complete the plan to sell have been initiated
- The sale of the asset or disposal group is probable (i.e., likely to occur) and the transfer is expected to qualify for recognition as a completed sale within one year
- The long-lived asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value
- Actions necessary to complete the plan indicate that it is unlikely significant changes to the plan will be made or that the plan will be withdrawn

The FASB permits an exception to the one-year requirement (in the fourth bullet above) if events or circumstances beyond an entity's control extend the period of time required to sell the assets beyond one year (refer to section 4.1.1 for further discussion).

The disposal group qualifies for reporting as a discontinued operation if it: (1) is a component of an entity (or group of components), (2) meets the held for sale criteria as prescribed by ASC 205-20-45-1E, is disposed of by sale or is disposed of other than by sale (e.g., abandonment), and (3) represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Refer to our FRD, ***Discontinued operations — Accounting Standards Codification 205-20***, for further guidance on discontinued operations classified as held for sale.

1.5.2 Measurement

A long-lived asset (disposal group) classified as held for sale is initially measured at the lower of its carrying amount or fair value less cost to sell. A loss is recognized for any initial adjustment of the carrying amount of the long-lived asset or disposal group to its fair value less cost to sell in the period the held for sale criteria are met. The fair value less cost to sell of the long-lived asset (disposal group) is required to be assessed each reporting period it remains classified as held for sale. Subsequent changes in the long-lived asset's fair value less cost to sell (increase or decrease) would be reported as an adjustment to its carrying amount, except that the adjusted carrying amount must not exceed the carrying amount of the long-lived asset at the time it was initially classified as held for sale. Gains or losses not previously recognized resulting from the sale of a long-lived asset are recognized on the date of sale. A long-lived asset or long-lived assets within a disposal group is not depreciated or amortized when classified as held for sale.

The carrying amount of any asset that is not covered by ASC 360-10, including goodwill, that is included in a disposal group classified as held for sale, should be adjusted in accordance with generally accepted accounting principles (e.g., inventory in accordance with ASC 330 or goodwill in accordance with ASC 350), before measuring the fair value less cost to sell of the disposal group.

1.5.3 Grouping of assets held for sale

A disposal group includes only assets to be disposed of together as a group in a single transaction and liabilities directly associated with those that will be transferred in that transaction. Examples of such liabilities include, but are not limited to, environmental obligations that transfer with the asset, warranty obligations that relate to an acquired customer base and assumable debt with an interest rate below the current market rate.

1.5.4 Changes to a plan of sale

If circumstances arise that were previously considered unlikely and an entity subsequently decides not to sell a long-lived asset (disposal group) that is classified as held for sale, the long-lived asset (disposal group) would be reclassified as held and used. The guidance in ASC 360-10 requires that a long-lived asset (or the long-lived assets of a disposal group) that is reclassified from held for sale to held and used be measured at the time of the reclassification individually at the lower of its (a) carrying amount before it was classified as held for sale, adjusted for any depreciation (amortization) expense or impairment losses that would have been recognized had the asset (group) been continuously classified as held and used or (b) fair value at the date of the subsequent decision not to sell. The effect of any required adjustment would be reflected in income from continuing operations at the date of the decision not to sell. One interesting result of applying the change to a plan of sale provision is that if a held for sale long-lived asset (disposal group) is measured at its fair value less costs to sell and then remeasured to its fair value because of a change to a plan of sale, there will be an immediate write-up in the carrying value of the long-lived asset (group) reflected in income as a result of the elimination of the costs to sell from the measurement of the long-lived asset (group). In addition, a description of the facts and circumstances leading to the decision to change the plan to sell the long-lived asset (disposal group) and its effects on the results of operations for the period and any prior periods must be disclosed.

2 Long-lived assets to be held and used

2.1 Overview

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

Measurement of an Impairment Loss

360-10-35-15

There are unique requirements of accounting for the **impairment** or disposal of long-lived assets to be held and used or to be disposed of. Although this guidance deals with matters which may lead to the ultimate disposition of assets, it is included in this Subsection because it describes the measurement and classification of assets to be held and used and assets held for disposal before actual disposition and derecognition. See the Impairment or Disposal of Long-Lived Assets Subsection of Section 360–10–40 for a discussion of assets or asset groups for which disposition has taken place in an exchange or distribution to owners.

Long-Lived Assets Classified as Held and Used

360-10-35-16

This guidance addresses how long-lived assets or asset groups that are intended to be held and used in an entity's business shall be reviewed for impairment.

360-10-35-17

An impairment loss shall be recognized only if the carrying amount of a long-lived asset (**asset group**) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability, whether in use (see paragraph 360-10-35-33) or under development (see paragraph 360-10-35-34). An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.

This section discusses the accounting for the impairment of long-lived assets to be held and used. Long-lived assets that are held and used are those assets that an entity uses in its operations and for which the held for sale criteria (discussed in section 4.1.1) have not been met.

The following are the required steps to identify, recognize and measure the impairment of a long-lived asset (group) to be held and used:

1. **Indicators of impairment** — Consider whether indicators of impairment are present.
2. **Test for recoverability** — If indicators are present, perform a recoverability test by comparing the sum of the estimated undiscounted future cash flows attributable to the assets in question to their carrying amounts (as a reminder, entities cannot record an impairment for a held and used asset unless the asset first fails this recoverability test).

3. **Measurement of an impairment** — If the undiscounted cash flows used in the test for recoverability are less than the carrying amount of the long-lived asset (group), determine the fair value of the long-lived asset (group) and recognize an impairment loss if the carrying amount of the long-lived asset (group) exceeds its fair value.

2.2 Indicators of impairment — Step 1

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-21

A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The following are examples of such events or changes in circumstances:

a. A significant decrease in the market price of a long-lived asset (asset group)

b. A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition

c. A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator

d. An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)

e. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group)

f. A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

ASC 360-10 requires that a long-lived asset (group) be reviewed for impairment only when events or changes in circumstances indicate that the carrying amount of the long-lived asset (group) might not be recoverable. Accordingly, entities do not need to routinely perform tests of recoverability. However, entities are responsible for routinely assessing whether impairment indicators are present and should have systems or processes to assist in the detection of impairment indicators.

To assist management in determining when long-lived assets (groups) should be evaluated for impairment, ASC 360-10-35-21 above provides examples of events or changes in circumstances that indicate the carrying amount of a long-lived asset (group) might not be recoverable and thus an impairment might exist.

The list above is not meant to be all-inclusive and there might be other situations, including circumstances that are particular to an entity's business or industry that indicate an impairment might exist or that the carrying amount of a long-lived asset (group) might not be recoverable. In the Background Information and Basis for Conclusions to Financial Accounting Standards Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement No. 144), the FASB further emphasizes that "existing information and analyses developed for management review of the entity and its operations generally will be the principal evidence needed to determine when an impairment exists" (Statement No. 144, paragraph B16). Therefore, entities should consider the FASB's list of indicators as well as other events or circumstances that they are aware of that suggest the carrying amount of a long-lived asset (group) might not be recoverable to determine whether a recoverability test must be performed.

In addition to the indicators of impairment noted in ASC 360-10-35-21, the following indicators also may be relevant:

- A significant drop in the stock price of the entity
- An impairment of goodwill and other non-amortizing intangibles under ASC 350. This would be a particularly relevant indicator when the intangible relates to or is used by an asset group containing other long-lived assets
- Insufficient rental demand for a rental project currently under construction

It should be noted that for purposes of applying the impairment indicators to a particular circumstance, it is possible that impairments result from changes in economic conditions or other factors that develop over time. For example, industry trends that indicate a potential decrease in demand for an entity's product do not always develop to the point where an impairment might be indicated within one reporting cycle. Additionally, consider a situation where the trend in sales has reflected a 5% average annual decrease for the last few years, or where the market value of the entity's principal products has declined steadily for the last several years. These examples illustrate that the application of the above impairment indicators to a given circumstance may have to be considered over a continuum rather than a relatively short period of time.

As noted above, management's ongoing analysis and review of the entity and its operations should provide a basis for determining whether there are any indicators of impairment. In conjunction with that review, management should be alert to potential impairment indicators unique to its circumstances, as well as other events and changes in circumstances that might indicate that an impairment exists. For smaller entities and those with centralized operations, the information-gathering aspects of this process should not be onerous because of management's in-depth knowledge of all aspects of the business. However, for larger entities or those with decentralized operations, this information gathering process could be more challenging. Such entities may need to establish a system for communicating with managers at their various locations to determine whether indicators of impairment are present and to ensure that local management has assessed the need to record an impairment loss and has communicated the results of that assessment to corporate personnel responsible for preparing the consolidated financial statements. To facilitate this process, management may wish to include a schedule in the internal reporting package to be completed by each business unit that lists the indicators of impairment described in ASC 360-10 and other events or circumstances specific to its business or industry that might indicate an impairment exists. The completed schedule could indicate whether any indicators of impairment are present and whether the need to record an impairment loss has been considered. This process should provide corporate management with assurance that throughout the organization appropriate consideration has been given to identifying situations that imply a long-lived asset (group) might be impaired.

2.2.1 Depreciation estimates

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-22

When a long-lived asset (asset group) is tested for recoverability, it also may be necessary to review depreciation estimates and method as required by Topic 250 or the amortization period as required by Topic 350. Paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 address the accounting for changes in estimates, including changes in the method of depreciation, amortization, and depletion. Paragraphs 350-30-35-1 through 35-5 address the determination of the useful life of an intangible asset. Any revision to the remaining useful life of a long-lived asset resulting from that review also shall be considered in developing estimates of future cash flows used to test the asset (asset group) for recoverability (see paragraphs 360-10-35-31 through 35-32). However, any change in the accounting method for the asset resulting from that review shall be made only after applying this Subtopic.

We believe that management should closely evaluate depreciation estimates when impairment indicators exist and, in turn, the asset (group) is tested for recoverability. If management determines that the depreciation estimate should be changed, it should use the revised depreciation estimates for the undiscounted cash flow projections in conjunction with testing the asset for recoverability. For example, if management determines that the remaining useful life of an asset (or the primary asset in the asset group) is 7 years instead of 10, the cash flow projections used in the recoverability test should be for 7 years only, the new estimate of the remaining useful life. In accordance with ASC 360-10-35-22 above, changes to prospective depreciation or amortization expense should be made only after completing the impairment analysis.

2.3 Test for recoverability—Step 2

If any of the impairment indicators are present, or if other circumstances indicate that an impairment might exist, management must then perform Step 2, the recoverability test, to determine whether an impairment loss should be measured. In other words, before measuring an impairment, an entity must first determine whether the long-lived asset (group) is recoverable. The following steps are performed in making that determination:

1. Group long-lived assets and, if applicable, liabilities at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of the other assets and liabilities. (See further discussion of asset groupings in section 2.3.1.)
2. Estimate the future net undiscounted cash flows expected to be generated from the use of the long-lived asset (group) and its eventual disposal. (See further discussion of cash flow estimates in section 2.3.2.)
3. Compare the estimated undiscounted cash flows to the carrying amount of the long-lived asset (group):
    a. If the estimated undiscounted cash flows exceed the carrying amount (i.e., net book value) of the long-lived asset (group), the long-lived asset (group) is recoverable; therefore, an impairment does not exist and a loss cannot be recognized. However, as discussed above, given the existence of the indicators of impairment, it may be appropriate for the entity to review its depreciation policies for the long-lived asset (group) (e.g., reduce the estimated remaining useful life or salvage value of the assets).
    b. If the estimated undiscounted cash flows are less than the carrying amount of the long-lived asset (group), the long-lived asset (group) is not recoverable; therefore, the fair value of the long-lived asset (group) must be determined.

All of the above steps are subjective and will require judgment.

2.3.1 Grouping long-lived assets to be held and used

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-23

For purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. However, an impairment loss, if any, that results from applying this Subtopic shall reduce only the carrying amount of a long-lived asset or assets of the group in accordance with paragraph 360-10-35-28.

Each time an entity performs a recoverability test, it should assess whether its grouping of long-lived assets continues to be appropriate. Significant changes to the planned use of the individual assets of the group might indicate that the related asset grouping may have changed.

The FASB acknowledges that grouping assets requires a significant amount of judgment. As noted above, asset groups may include assets and liabilities outside the scope of ASC 360-10 (for example, goodwill — if certain conditions, discussed later, are met — and other non-amortizing intangible assets). In general, assets should be grouped when they are used together, that is, when they are part of the same group of assets and are used together to generate joint cash flows. If assets and/or liabilities are grouped for purposes of a test for recoverability, they are referred to as an "asset group." The Codification states the following acknowledging the need for judgment:

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Implementation Guidance and Illustrations

360-10-55-35

Varying facts and circumstances will inevitably justify different groupings of assets for impairment review. While grouping at the lowest level for which there are identifiable cash flows for recognition and measurement of an impairment loss is understood, determining that lowest level requires considerable judgment.

ASC 360-10-55-36 provides an example of the judgment used in grouping assets for impairment review, which is the basis for Illustration 2-1.

Illustration 2-1: Grouping assets for impairment review

An entity operates a bus entity that provides service under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to serving each route and the cash flows from each route are discrete. One of the routes operates at a significant deficit that results in the inability to recover the carrying amounts of the dedicated assets. The five bus routes would be an appropriate level at which to group assets to test for and measure impairment because the entity does not have the option to curtail any one bus route.

In other words, because the entity does not have the ability to curtail the unprofitable route (i.e., the entity is contractually obligated to the municipality to operate all five routes), the cash flows of the unprofitable route are not independent of the cash flows of the other four routes. Conversely, if the five routes were operated at the sole discretion of the bus entity (i.e., not under a contract with the city) and the entity decided to continue to operate the unprofitable route, its cash flows would be evaluated independently of the other routes and appropriate write-downs, if necessary, would be made. Alternatively, if the entity planned to re-deploy the long-lived assets serving the unprofitable route and evidence (i.e., the undiscounted cash flows of the redeployed asset group) indicated that the carrying amount of such long-lived assets would be recovered through redeployment, a write-down would not be necessary.

As discussed above, determining at what level the grouping of the long-lived assets is to be made will require appropriate consideration of the individual facts and circumstances and an understanding of the entity's business. The following illustrates a situation where it might be appropriate to group long-lived assets at a higher level than the lowest level for which cash flows are available.

Illustration 2-2: Grouping long-lived assets to be held and used

Fast Food operates a chain of restaurants located in each major city throughout the Northeast. Fast Food's marketing strategy provides that one restaurant in each of the major cities test markets all new products before those products are introduced at the other restaurant locations within a city and that the new-product restaurant offers product prices that are significantly below the prices offered at the other locations. The entity demonstrates that the "loss-leader" restaurant strategy enables the surrounding locations to draw on a significantly larger customer base. Each of the other restaurants in the city (i.e., other than the loss-leader) is highly profitable and generating significant cash flows. In this case, considering the restaurants in each city as a group for evaluating impairment may be appropriate because the cash flows of each individual restaurant are not independent of those of the other restaurants in the city.

Another example of the judgment involved in the grouping process is an entity that is vertically integrated, with goods produced at the subsidiary level that are sold to the parent entity. This situation might be further complicated if the goods produced are not only sold to the parent entity, but also are sold to third-party customers. In these circumstances, entities will need to make the grouping decision based on their particular situation.

The flexibility accorded by ASC 360-10 in determining long-lived asset groupings will require management to carefully consider the individual facts and circumstances surrounding its operating environment and production processes and to exercise significant judgment. An understanding of how management views the business will provide valuable input in making sound asset grouping decisions. From the standpoint of the time and costs associated with determining asset groupings, challenging whether economic reasons coupled with business strategies support a higher level of asset groupings often will prove beneficial.

For example, if retail outlets are dependent on regional distribution centers that provide warehousing, ordering, inventory levels, advertising, accounting and other administrative services, it might be appropriate to group retail outlets that are served by a regional distribution center rather than by individual retail outlet. On the other hand, considering four hotels as a group for purposes of evaluating impairment merely because the hotels share a common reservation system likely would not be appropriate.

2.3.1.1 Debt in asset groups

Generally, debt should not be included in an asset group because the lowest level of identifiable cash flows will typically not include cash flows associated with debt (i.e., the principal payments associated with the debt). Further, the cash flows associated with debt principal payments are typically easy to identify; therefore, most entities will be able to eliminate the cash flows associated with debt from the cash flows of other assets and liabilities.

However, in rare instances, if the lowest level of identifiable cash flows includes cash flows associated with debt principal payments and it is not practical to eliminate those cash flows (which would be more likely to occur when the asset group is a business or reporting unit), then the debt should be included in the asset group (i.e., netted with the carrying amounts of the assets of the group) so as to maintain an appropriate comparison. This basis adjustment provides the same result as if the debt principal payments have been excluded (e.g., debt with a carrying value of $100 would have undiscounted cash flows of $100). As a reminder, the guidance in ASC 360-10 prohibits the inclusion of interest expense in assessing the recoverability of long-lived assets (see ASC 360-10-35-29 for further discussion of interest). Consider the following illustration:

Illustration 2-3: Debt in asset groups

Assume an entity can identify cash flows associated with an individual truck being tested for recoverability. Also assume that the truck was financed with proceeds from debt that has an outstanding balance when the truck is tested for recoverability. Because the entity can separately identify the cash flows associated with the individual truck (e.g., freight, maintenance, truck driver salary) from the cash flows of the debt, the carrying amount of the debt would not be included in the asset group and the cash flows related to the debt would not be included in the cash flow estimates.

2.3.1.2 Impairment indicators for individual assets in an asset group

If there is an impairment indicator associated with an individual long-lived asset that is included in an asset group, an entity should consider the significance of that individual asset to the asset group as a whole before proceeding with the recoverability test. For instance, if a personal computer is included in an asset group with other assets of a manufacturing facility and it is probable that the computer will be sold before the end of its useful life (and it is not probable that the other long-lived assets of the asset groups will be sold), an entity may not need to perform a recoverability test, because the individual computer is clearly inconsequential to the asset group as a whole. However, the entity should evaluate the propriety of the computer's estimated useful life and salvage value and also assess whether the computer should be classified as held for sale. See section 4.1.1 regarding the criteria that must be met in order to classify an asset as held for sale.

2.3.1.3 Entity-wide asset groupings

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-24

In limited circumstances, a long-lived asset (for example, a corporate headquarters facility) may not have identifiable cash flows that are largely independent of the cash flows of other assets and liabilities and of other asset groups. In those circumstances, the asset group for that long-lived asset shall include all assets and liabilities of the entity.

360-10-35-25

In limited circumstances, an asset group will include all assets and liabilities of the entity. For example, the cost of operating assets such as corporate headquarters or centralized research facilities may be funded by revenue-producing activities at lower levels of the entity. Accordingly, in limited circumstances, the lowest level of identifiable cash flows that are largely independent of other asset groups may be the entity level. See Example 4 (paragraph 360-10-55-35).

Certain long-lived assets do not have identifiable cash flows that are independent of the cash flows of other assets and liabilities and cannot be identified with a specific asset group that has identifiable cash flows. For example, the costs of administering a museum may exceed the admission fees charged but the organization may fund the cash flow deficit with unrestricted contributions, or the cost of operating assets such as a corporate headquarters or centralized research facilities are typically funded by revenue-producing activities at lower levels of the enterprise.

In the above situations, those long-lived assets generally should be evaluated for impairment on an entity-wide level. If grouped at the entity level, management should estimate whether the entity as a whole will generate cash flows sufficient to recover the carrying amount of all the assets (liabilities) of an entity. As a result, in many instances it will not be appropriate to go on to Step 3 for corporate level assets (e.g., an entity-wide enterprise planning computer system, corporate headquarters) because the entity's long-lived assets are recoverable on an entity-wide basis. However, if an entity owns the building in which its corporate headquarters are located and decides to vacate the entire building and lease it to a third party, the asset would no longer be an entity-wide asset. Instead, recoverability most likely would be assessed based on the building itself.

2.3.1.4 Goodwill and other assets or liabilities in asset groups

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-26

Goodwill shall be included in an asset group to be tested for impairment under this Subtopic only if the asset group is or includes a reporting unit. Goodwill shall not be included in a lower-level asset group that includes only part of a reporting unit. Estimates of future cash flows used to test that lower-level asset group for recoverability shall not be adjusted for the effect of excluding goodwill from the group. The term reporting unit is defined in Topic 350 as the same level as or one level below an **operating segment**. That Topic requires that goodwill be tested for impairment at the reporting unit level.

360-10-35-27

Other than goodwill, the carrying amounts of any assets (such as accounts receivable and inventory) and liabilities (such as accounts payable, long-term debt, and asset retirement obligations) not covered by this Subtopic that are included in an asset group shall be adjusted in accordance with other applicable generally accepted accounting principles (GAAP) before testing the asset group for recoverability. Paragraph 350-20-35-31 requires that goodwill be tested for impairment only after the carrying amounts of the other assets of the reporting unit, including the long-lived assets covered by this Subtopic, have been tested for impairment under other applicable accounting guidance.

Intangibles—Goodwill and Other — Goodwill

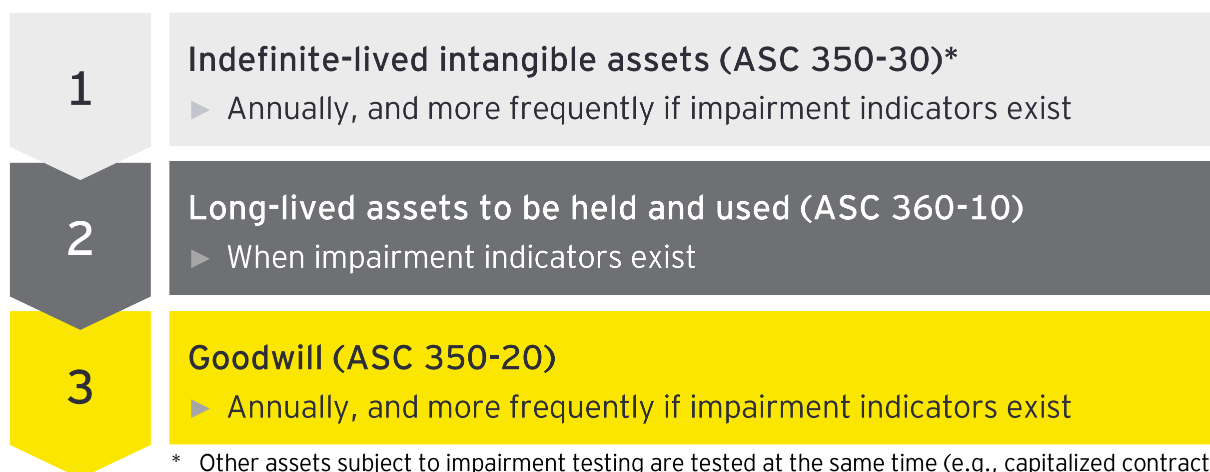
Subsequent Measurement

350-20-35-31

If goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) shall be tested for impairment before goodwill. For example, if a significant asset group is to be tested for impairment under the Impairment or Disposal of Long-Lived Assets Subsections of Subtopic 360-10 (thus potentially requiring a goodwill impairment test), the impairment test for the significant asset group would be performed before the goodwill impairment test. If the asset group was impaired, the impairment loss would be recognized prior to goodwill being tested for impairment.

Sometimes long-lived assets (groups) to be held and used (including finite-lived intangible assets), indefinite-lived intangible assets and goodwill (when the long-lived asset group is or includes a reporting unit) may all need to be tested for impairment at the same time (e.g., due to an impairment indicator that affects all of them). If long-lived assets tested for impairment under ASC 360-10 are grouped at or above the reporting unit level, then goodwill, if any, of that reporting unit should be included in the asset group in performing the recoverability test. If the asset group only includes a part of the reporting unit, goodwill would not be allocated to the asset group in performing the recoverability test.

When goodwill and indefinite lived intangibles are included in the long-lived asset group being tested for impairment, the indefinite-lived intangible assets are tested for impairment in accordance with ASC 350-30 first, then the long-lived assets (groups) are tested for impairment in accordance with ASC 360-10, and goodwill is tested for impairment at the reporting unit level in accordance with ASC 350-20 last. The reason the order is important is because the impairment test of long-lived assets (groups) under ASC 360-10 and goodwill under ASC 350-20 is dependent on the carrying amounts of the underlying assets first being properly adjusted for impairment. The graphic below summarizes the order in which assets generally need to be tested for impairment and the frequency of those tests.



* Other assets subject to impairment testing are tested at the same time (e.g., capitalized contract costs, inventory, equity method investments).

The guidance regarding assigning goodwill to an asset group that is held and used differs from the guidance in ASC 350 regarding assigning goodwill to a disposal group that is classified as held for sale (as discussed later in section 4.1.3.1). Under ASC 350, goodwill must be allocated to a disposal group that constitutes a part of a reporting unit if the disposal group constitutes a business. However, for asset groups that are being held and used, goodwill may not be included in an asset group when the assets are grouped below the reporting unit level, even if the asset group constitutes a business. Further, when an asset group within a reporting unit is held and used, any goodwill assigned to the reporting unit is tested last (i.e., after adjusting any assets and liabilities not subject to ASC 360-10 in accordance with ASC 360-10-35-27 and testing long-lived assets subject to ASC 360-10).

See section 4.2.3.2 for a discussion on how the order of impairment tests differs when a long-lived asset (group) is held for sale.

2.3.1.5 Cumulative translation adjustments in impairment of asset groups

When an asset group is held and used, the carrying amount of that asset group generally would not include any cumulative translation adjustments associated with the group because the entity would not have committed to a plan that would cause the cumulative translation adjustments to be reclassified to earnings. Refer to section 4.4, *Cumulative translation adjustments in impairment of disposal groups*, for considerations for cumulative translation adjustments when evaluating a disposal group for impairment.

2.3.2 Estimates of future cash flows used to test a long-lived asset for recoverability

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-29

Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall include only the future cash flows (cash inflows less associated cash outflows) that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset (asset group). Those estimates shall exclude interest charges that will be recognized as an expense when incurred.

360-10-35-30

Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall incorporate the entity's own assumptions about its use of the asset (asset group) and shall consider all available evidence. The assumptions used in developing those estimates shall be reasonable in relation to the assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections, accruals related to incentive compensation plans, or information communicated to others. However, if alternative courses of action to recover the carrying amount of a long-lived asset (asset group) are under consideration or if a range is estimated for the amount of possible future cash flows associated with the likely course of action, the likelihood of those possible outcomes shall be considered. A probability-weighted approach may be useful in considering the likelihood of those possible outcomes. See Example 2 (paragraph 360-10-55-23) for an illustration of this guidance.

The guidance in this section regarding the estimation of future cash flows for purposes of performing a recoverability test focuses on:

- The cash flow estimation approach
- The cash flow estimation period
- The types of asset-related expenditures that are to be considered in developing estimates of future cash flows

Since the objectives for determining recoverability and determining fair value are different, estimating the cash flows in a recoverability test may be different from estimating cash flows in a valuation technique for measuring fair value. When deliberating this issue, the FASB concluded that because these objectives are different, separate guidance on developing estimates of future cash flows for a test of recoverability should be provided. Accordingly, ASC 360-10 provides a significant amount of guidance about estimating cash flows for purposes of performing a recoverability test.

2.3.2.1 Cash flow estimation approach

Generally, the following approach is followed in estimating cash flows for purposes of performing a recoverability test:

- The estimates include only future cash inflows less associated cash outflows that are directly associated with and that are expected to arise as a direct result of the use and eventual disposition of the asset (group).
- The estimates should incorporate the entity's own assumptions about its use of the long-lived asset (group) and consider all evidence.
- The estimates of cash flows for performing a recoverability test are undiscounted.

Determining whether cash flows are directly associated and are expected to arise as a direct result of the use and eventual disposition of the long-lived asset (group) likely will be a very subjective determination. ASC 360-10 provides no guidance or examples of situations that illustrate what it means by "directly associated." Therefore, we believe that reasonable determinations should be made. For example, if a trucking entity owns its trucks and determines that a truck represents the lowest identifiable cash flows, the entity would likely only include cash flows generated from the freight the particular truck carries, along with cash outflows such as gas, insurance, tolls, maintenance and the salary and benefits of the truck driver. Indirect cash outflows of support personnel such as schedulers and management likely would not be included in those cash flow estimates because they are not directly related to the use of the truck.

Using an entity's own assumptions when estimating cash flows for a recoverability test differs from the process an entity undertakes in measuring fair value which is based on market participant assumptions (see section 2.4 for information on fair value determinations). For example, if a plant is presently being used to manufacture wall fasteners and it is the entity's intention to continue to utilize the plant for that purpose, even though a third party would likely use the plant to manufacture paint, the estimated cash flows used to test the plant for recoverability would still be based upon the continued manufacturing of wall fasteners. If the cash flow estimates used in a recoverability test assume an entity will dispose of the long-lived asset before the end of its estimated useful life, those cash flow estimates would assume the proceeds from the sale will be based on its existing use (e.g., the plant will not be converted by the entity into a paint manufacturing facility). An entity's own assumptions are used in the Step 2 testing of a long-lived asset (group) for recoverability because a recoverability test is not a valuation; rather, it is a test to determine whether the entity will recover the cost of the long-lived asset.

The FASB did not establish specific limits on the assumptions used to generate cash flow estimates, such as requiring the use of current prices and volumes because those assumptions may be inconsistent with the entity's own assumptions about its use of the long-lived asset. Thus, if an entity has a reasonable basis to assume that prices or volume will increase from current levels (e.g., current economic and industry trends indicate an increase in demand, or the futures market indicates that prices are likely to increase), it is appropriate to reflect such increases in the cash flow estimates. However, the assumptions used must be reasonable in relation to the assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections and accruals related to incentive compensation plans. In addition, entities may not use information in assessing the recoverability of long-lived assets that is inconsistent with that used for other accounting purposes (e.g., assessing the recoverability of deferred tax assets). The SEC staff also has challenged instances where cash flow projections were inconsistent with those provided to analysts or other third parties.

The process of objectively verifying the evidence supporting cash flow estimates used in impairment evaluations will be difficult, if not impossible, especially when cash flows must be estimated for an extended period of time (e.g., estimating cash flows for a building that has a useful life of 30 years) because very few long-term forecasts have an objective basis beyond a few years. The FASB's approach will often require entities to go well beyond the period that auditors are permitted to report on a forecast made pursuant to the AICPA's *Guide for Prospective Information* that indicates that it "ordinarily would be difficult to establish that a reasonably objective basis exists for a financial forecast extending beyond three to five years." Accordingly, estimating future undiscounted cash flows will require a great deal of judgment and, in most cases, will be extremely subjective. Nonetheless, care and consideration must be given to the assumptions used and should be supported by available evidence, if possible. In addition, entities should be particularly wary of projections that indicate dramatic increases in future cash flows (e.g., three years of flat cash flows, then a 10% increase per year, for the next ten years).

The amount of detail and the extent to which management must estimate cash flows will be partially dependent on its initial analysis. In many cases, it will be relatively easy to conclude that expected future cash flows would equal or exceed the carrying amount of the long-lived asset (group) without incurring the cost of actually projecting cash flows. For example, if management's initial analysis of historical performance and general industry trends indicate that future cash flows greatly exceed the carrying amount of the long-lived asset (group) being evaluated, further detailed analysis of cash flows might not be necessary. However, if an initial estimate indicates that the expected cash flows are not significantly different from the carrying amount of the long-lived asset (group) (either above or below), more detailed analysis generally will be necessary to provide sufficient evidence as to whether an impairment exists (i.e., whether or not the recoverability test is met).

As illustrated below, relatively small changes in the estimated cash flows may have a significant effect on the financial statements.

Illustration 2-4: Test for recoverability — sensitivity to cash flow estimates

Assume a long-lived asset with a carrying amount of $10 million and a fair value of $6 million is being evaluated for impairment. If the undiscounted cash flows from the long-lived asset were estimated at $10.1 million, an impairment loss would not be recognized because the undiscounted cash flows exceed the carrying amount of the asset. However, if the undiscounted cash flows were estimated at $9.9 million, an impairment loss of $4 million would be recognized. In this case, a $200,000 decrease in the cash flow estimate, which could be based on a cash flow projection many years in the future, would result in the recognition of a $4 million loss.

2.3.2.1.1 *Consideration of taxes in cash flow estimation*

ASC 360 is silent on whether an entity should use pre- or post-tax cash flows in performing a recoverability test. Accordingly, we believe an entity should adopt a policy of using either pre- or post-tax cash flows when performing a recoverability test.

In practice, we have observed that most companies perform the recoverability test on a pretax basis. If an entity elects to perform the recoverability test using post-tax cash flows, the deferred taxes related to the asset group are included in the computation of the carrying value. Similarly, if an entity performs the recoverability test on a pretax basis, deferred taxes would not be included in the computation of the carrying value. It is not appropriate to include deferred taxes in an asset group and assess recoverability using pretax cash flows nor is it appropriate to exclude deferred taxes from the asset group and assess recoverability using post-tax cash flows. The asset group and related cash flows must be consistent when performing the recoverability test.

Regardless of the method applied (i.e., pre- or post-tax), the recoverability test will generally yield a consistent answer as to whether the assets are recoverable. The following illustrates this concept.

Illustration 2-5: Effect of taxes on the test for recoverability

Company A is performing a test for recoverability for its asset group AB. The carrying value of asset group AB is $110,000. The tax basis of asset group AB is $60,000 and Company A's tax rate is 25%.

Pretax calculation

Pretax undiscounted cash flows for asset group AB are $100,000. Upon comparison of the undiscounted cash flows ($100,000) to the carrying value of asset group AB ($110,000), Company A determines that asset group AB does not pass the test for recoverability.

Post-tax calculation

If Company A performs the recoverability test using post-tax cash flows, the post-tax carrying value of asset group AB would be $97,500, including the related deferred tax liability of $12,500 (($110,000 — $60,000) x 25%). The future tax payable is calculated as follows:

Pretax cash flows	$ 100,000
Depreciation deductions	$ 60,000
Future taxable income	$ 40,000
Tax rate	25%
Income tax payable	$ 10,000

Post-tax cash flows for asset group AB are $90,000 ($100,000 pretax cash flows — $10,000 taxes payable). Upon comparison of the post-tax carrying value of asset group AB of $97,500 to the post-tax cash flows of $90,000, asset group AB does not pass the recoverability test on a post-tax basis.

2.3.2.2 Probability-weighted and best estimate cash flow approaches

ASC 360-10 allows entities to use either a single-most-likely estimate of expected future cash flows (often referred to as a traditional or best-estimate approach) or a range of possible future outcomes (often referred to as a probability-weighted approach). However, if alternative courses of action to recover the long-lived asset (group) are under consideration or if a range is estimated for the amount of possible cash flows, the likelihood of possible outcomes must be considered. An entity is not required to use the probability-weighted approach, but it may be useful in considering the likelihood of possible outcomes.

If the probability-weighted approach is used, the likelihood of possible outcomes should be considered in determining the best estimate of future cash flows. When determining the probability of various cash flow outcomes, management should consider items such as the likelihood of operating at the level of production necessary to produce the cash flow outcome, the likelihood of future price changes and the existence, if any, of contracts, firm orders or backlog.

ASC 360-10-55-23 through 55-29 provides an example of the application of the probability-weighted cash flow approach, which is the basis for Illustration 2-6.

Illustration 2-6: Effect of probability weighted cash flows on the test for recoverability

As of 31 December 20X2, a manufacturing facility with a carrying amount of $48 million is tested for recoverability. At that date, 2 courses of action to recover the carrying amount of the facility are under consideration—sell in 2 years or sell in 10 years (at the end of its remaining useful life).

The possible cash flows associated with each of those courses of action are $41 million and $48.7 million, respectively. They are developed based on entity-specific assumptions about future sales (volume and price) and costs in varying scenarios that consider the likelihood that existing customer relationships will continue, changes in economic (market) conditions and other relevant factors.

The following table shows the possible cash flows associated with each of the courses of action — sell in 2 years or sell in 10 years.

Course of action	Cash flows (Use)	Cash flows (Disposition)	Cash flows (Total)	Probability assessment	Possible cash flows (Probability-weighted)
(in $ millions)					
Sell in 2 years	$ 8	$ 30	$ 38	20%	$ 7.6
	11	30	41	50	20.5
	13	30	43	30	12.9
					$ 41.0

Sell in 10 years	36	1	37	20%	$ 7.4
	48	1	49	50	24.5
	55	1	56	30	16.8
					$ 48.7

As further indicated in the following table, there is a 60 percent probability that the facility will be sold in 2 years and a 40 percent probability that the facility will be sold in 10 years.

The alternatives of whether to sell or use an asset are not necessarily independent of each other. In many situations, after estimating the possible future cash flows relating to those potential courses of action, an entity might select the course of action that results in a significantly higher estimate of possible future cash flows. In that situation, the entity generally would use the estimates of possible future cash flows relating only to that course of action in computing future cash flows. As shown below, the expected cash flows are $44.1 million (undiscounted). Therefore, the carrying amount of the facility of $48 million would not be recoverable.

Course of Action	Possible Cash Flows (Probability-Weighted)	Probability Assessment (Course of Action)	Expected Cash Flows (Undiscounted)
(in $ millions)			
Sell in 2 years	$ 41.0	60%	$ 24.6
Sell in 10 years	48.7	40	19.5
			$ 44.1

As a result of this highly subjective probability analysis, the undiscounted expected cash flows used to test the facility for recoverability would be $44.1 million. Because the carrying amount of the asset exceeds $44.1 million it would have to be written down to fair value (which is not necessarily $44.1 million discounted on a net present value basis). This approach is different than the best-estimate approach, which employs a single point best estimate of cash flows (one scenario and a single estimate of cash flows).

The FASB recognized that to apply the provisions of ASC 360-10, judgments, estimates and projections would be required for determining the recoverability of impaired assets and that precise information about the relevant attributes of those assets seldom would be available. Accordingly, an entity might reach different conclusions given the same information, depending on whether it uses the probability-weighted or best estimate cash flow approach, as shown in the following extreme example.

Illustration 2-7: Effect of probability weighted cash flows on the test for recoverability

If an entity assessed a 70% probability that the future cash flows will be $20 million and a 30% probability that the future cash flows will be $300 million (if a windfall occurs), the probability-weighted cash flows would be $104 million ([.70*$20M] + [.30*$300M]). As a result, a long-lived asset (group) with a carrying value of $100 million and a fair value of $15 million would be recoverable despite the high likelihood that the carrying value of the long-lived asset (group) is not recoverable. Alternatively, if the entity's best estimate of future cash flows were $20 million, the long-lived asset (group) would not be recoverable and the entity would record an $85 million impairment charge.

2.3.2.3 Cash flow estimation period

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-31

Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall be made for the remaining useful life of the asset (asset group) to the entity. The remaining useful life of an asset group shall be based on the remaining useful life of the primary asset of the group. For purposes of this Subtopic, the primary asset is the principal long-lived tangible asset being depreciated or intangible asset being amortized that is the most significant component asset from which the asset group derives its cash-flow-generating capacity. The primary asset of an asset group therefore cannot be land or an intangible asset not being amortized.

360-10-35-32

Factors that an entity generally shall consider in determining whether a long-lived asset is the primary asset of an asset group include the following:

a. Whether other assets of the group would have been acquired by the entity without the asset

b. The level of investment that would be required to replace the asset

c. The remaining useful life of the asset relative to other assets of the group. If the primary asset is not the asset of the group with the longest remaining useful life, estimates of future cash flows for the group shall assume the sale of the group at the end of the remaining useful life of the primary asset.

The cash flow estimation period is based upon the long-lived asset's remaining useful life to the entity. Note that the remaining useful life to the entity to be used would consider any adjustments that were made based on the guidance in section 2.2.1. Thus, the process of estimating a long-lived asset's remaining useful life becomes even more important because it directly affects the number of periods over which operating cash flows are to be estimated in performing a recoverability test.

When long-lived assets are grouped for purposes of performing the recoverability test, the remaining useful life of the asset group is based upon the useful life of the primary asset — the principal long-lived tangible asset being depreciated or identifiable intangible asset being amortized that is the most significant component asset from which the group derives its cash-flow-generating capacity. In practice, the determination of the primary asset will be difficult in certain instances, particularly when multiple assets appear essential.

Illustration 2-8: Determining the primary asset in an asset group

Assume an asset group that is being tested for recoverability is comprised of the following individual long-lived assets:

Long-lived asset	Remaining estimated useful life (years)	Asset's net book value
Building	8	$ 1,000
Machinery	6	200
Patent	12	850
Furniture	10	50
Computer	3	2

Based on this information, an entity could conclude that the patent is the asset group's primary asset, assuming that the patent is the long-lived asset from which the group derives its cash flow generating capacity. Although the patent may not have the greatest carrying value, it may still be considered the primary asset, if other factors in identifying the primary asset are met, such as the entity may not have needed to acquire the other long-lived assets unless it had a patent to produce the product. Therefore, future cash flows of the asset group are projected over 12 years, for purposes of testing recoverability.

Alternatively, an entity could conclude that the building is the primary asset (assuming net book value equals replacement cost in this example) because it would require the greatest level of investment to replace; however, the entity must demonstrate that the building (and not the patent) is the long-lived asset from which the group derives its cash-flow-generating capacity. If the building were considered the primary asset, the cash flows would include a cash inflow at the end of eight years related to disposal proceeds from the hypothetical sale of the patent and furniture.

In addition, because a long-lived asset's value is not depleted over its depreciable life, including expected proceeds on sale in cash flow estimates is fairly common. Estimating proceeds on sale requires judgment, and management may use the same valuation techniques used to determine fair value (e.g., an income approach, such as a discounted cash flow model). In the above example, although there may be little value to a patent at the end of its amortization period (assuming the life equals the period it is valid), a building will ordinarily have some value. As a result, it would be possible in some cases to assume some disposal proceeds for the building at the end of its depreciable life.

Management's intent with regard to the long-lived asset is an important factor to consider when estimating cash flows. For example, a building that is leased to tenants under operating leases (e.g., an office building or an apartment building) that has indicators of impairment (e.g., it is only 40% occupied) might have a remaining useful life of 20 years. If management intends to hold and operate the property over the remaining useful life, rental cash flows would be estimated over that term and the estimated sales value of the building at the end of the period would be added to those amounts. (If the building was being depreciated over 25 years, it may be appropriate to reduce that life to 20 years, pursuant to ASC 250, as discussed in section 2.2.1.)

2.3.2.4 Asset-related expenditures for a long-lived asset in use

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-33

Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) that is in use, including a long-lived asset (asset group) for which development is substantially complete, shall be based on the existing service potential of the asset (asset group) at the date it is tested. The service potential of a long-lived asset (asset group) encompasses its remaining useful life, cash-flow-generating capacity, and for tangible assets, physical output capacity. Those estimates shall include cash flows associated with future expenditures necessary to maintain the existing service potential of a long-lived asset (asset group), including those that replace the service potential of component parts of a long-lived asset (for example, the roof of a building) and component assets other than the primary asset of an asset group. Those estimates shall exclude cash flows associated with future capital expenditures that would increase the service potential of a long-lived asset (asset group).

For a long-lived asset (group) that is held and used, including a long-lived asset (group) for which development is substantially complete, estimates of future cash flows used to test for recoverability are based on the existing service potential (i.e., "as is") of the asset (group) on the date it is tested. Therefore, estimates of

future cash flows used in that test exclude the cash flows associated with asset-related expenditures that would enhance the existing service potential of a long-lived asset (group) that is in use. For example, cash flows associated with remodeling a building or adding a wing to a building are excluded.

The cash flow estimates would include cash flows (including estimated salvage values) associated with future expenditures necessary to maintain the existing service potential, including those that replace the service potential of component parts of a long-lived asset or component assets (other than the primary asset) of an asset group. For example, cash flows associated with an overhaul of an airplane's engine or replacing a roof of a building (assuming the current roof's remaining estimated useful life is less than that of the building) would be included.

2.3.2.5 Asset-related expenditures for a long-lived asset under development

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-34

Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) that is under development shall be based on the expected service potential of the asset (group) when development is substantially complete. Those estimates shall include cash flows associated with all future expenditures necessary to develop a long-lived asset (asset group), including interest payments that will be capitalized as part of the cost of the asset (asset group). Subtopic 835-20 requires the capitalization period to end when the asset is substantially complete and ready for its intended use.

360-10-35-35

If a long-lived asset that is under development is part of an asset group that is in use, estimates of future cash flows used to test the recoverability of that group shall include the cash flows associated with future expenditures necessary to maintain the existing service potential of the group (see paragraph 360-10-35-33) as well as the cash flows associated with all future expenditures necessary to substantially complete the asset that is under development (see the preceding paragraph). See Example 3 (paragraph 360-10-55-33). See also paragraphs 360-10-55-7 through 55-18 for considerations of site restoration and environmental exit costs.

In contrast to a long-lived asset (group) that is in use, a long-lived asset that is under development will not provide service potential until the long-lived asset is substantially complete. Therefore, for a long-lived asset (group) that is under development, estimates of future cash flows used in a recoverability test would be based on the expected service potential of the long-lived asset (group) when development is complete. The estimates include cash flows associated with all future asset-related expenditures necessary to complete the development of the long-lived asset (group), regardless as to whether those expenditures would be recognized as an expense or capitalized in future periods.

Although ASC 360-10 requires that cash flow estimates used in a recoverability test exclude interest payments that will be recognized as an expense when incurred, the cash flow estimates for a long-lived asset (group) under development would include interest payments that will be capitalized as part of the cost of the asset (group). This difference is due to the FASB's conclusion that for a long-lived asset (group) under development, there is no difference between interest payments and other asset-related expenditures that would be capitalized in future periods.

If a long-lived asset that is under development is part of an asset group that is in use, estimates of future cash flows used to test the recoverability of that group should include (a) future asset-related expenditures necessary to substantially complete the asset that is under development and (b) future asset-related expenditures necessary to maintain the existing service potential of the other assets that are in use. Example 3 in ASC 360-10-55 includes an example highlighting this requirement as shown below.

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Implementation Guidance and Illustrations

Example 3: Estimates of Future Cash Flows Used to Test an Asset Group for Recoverability

360-10-55-33

A long-lived asset that is under development may be part of an asset group that is in use. In that situation, estimates of future cash flows used to test the recoverability of that group shall include the cash flows associated with future expenditures necessary to maintain the existing service potential of the group as well as the cash flows associated with future expenditures necessary to substantially complete the asset that is under development (see paragraph 360-10-35-35).

360-10-55-34

An entity engaged in mining and selling phosphate estimates future cash flows from its commercially minable phosphate deposits in order to test the recoverability of the asset group that includes the mine and related long-lived assets (plant and equipment). Deposits from the mined rock must be processed in order to extract the phosphate. As the active mining area expands along the geological structure of the mine, a new processing plant is constructed near the production area. Depending on the size of the mine, extracting the minable deposits may require building numerous processing plants over the life of the mine. In testing the recoverability of the mine and related long-lived assets, the estimates of future cash flows from its commercially minable phosphate deposits would include cash flows associated with future expenditures necessary to build all of the required processing plants.

2.3.2.6 Timing of estimates

If the long-lived asset is tested for impairment as of the balance sheet date, the estimates of future cash flows used in the recoverability test would be based on the conditions that existed at the balance sheet date, including any assessment made at the balance sheet date as to the likelihood and timing of sale. The assessment at the balance sheet date would not be revised solely because of the entity's subsequent decision to sell the assets or other conditions that arise after the balance sheet date (e.g., loss of a significant customer).

Illustration 2-9: Effect of subsequent events on cash flow estimates

Assume a calendar-year entity, SFO, performs a recoverability test on a long-lived asset as of 31 December 20X2, but actually performs the test on 3 February 20X3 (before the issuance of the financial statements). As of 31 December 20X2, the cash flow estimates using a probability-weighted approach reflects a 20% probability that the asset will be sold, but on 3 February 20X3 the probability is 95% (e.g., due to SFO receiving an unsolicited offer from a third party to purchase the asset on 15 January 20X2). Even though SFO has more precise information as to the future cash flows that will be generated by the long-lived asset, SFO should disregard such information and use the 31 December 20X2, 20% probability assessment in performing the recoverability test. The cash flow estimates would be unaffected by conditions arising after 31 December 20X2.

Applying these provisions is often difficult in practice. ASC 360-10 notes that because it is difficult to separate the benefit of hindsight when assessing conditions that existed at a prior date, it is important that judgments about those conditions, the need to test a long-lived asset or disposal group for recoverability and the application of a recoverability test be made and documented together with supporting evidence on a timely basis.

2.3.2.7 Effect of asset retirement obligations on cash flow estimates

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-18

In applying the provisions of this Subtopic, the carrying amount of the asset being tested for impairment shall include amounts of capitalized asset retirement costs. Estimated future cash flows related to the liability for an asset retirement obligation that has been recognized in the financial statements shall be excluded from both of the following:

a. The undiscounted cash flows used to test the asset for recoverability

b. The discounted cash flows used to measure the asset's fair value.

360-10-35-19

If the fair value of the asset is based on a quoted market price and that price considers the costs that will be incurred in retiring that asset, the quoted market price shall be increased by the fair value of the asset retirement obligation for purposes of measuring impairment.

While the carrying amount of the asset includes the capitalized asset retirement costs, the asset retirement obligation liability is excluded from the asset group and estimated future cash outflows associated with the liability for the asset retirement obligation are excluded from both the Step 2 and Step 3 tests. Further, ASC 360-10 requires that an adjustment (an increase) be made to the fair value of the asset (group) if that fair value considers the costs that will be incurred in retiring that asset.

2.3.2.8 Effect of environmental exit costs on cash flow estimates used in the recoverability test

The implementation guidance in ASC 360-10-55 provides guidance on the treatment of certain environmental exit costs when testing an asset for recoverability. The implementation guidance lists indicators of circumstances when the cash flows for environmental exit costs would and would not be included in the undiscounted cash flows used in a recoverability test.

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Implementation Guidance and Illustrations

Treatment of Certain Site Restoration and Environmental Exit Costs when Testing a Long-Lived Asset for Impairment

360-10-55-1

The following guidance demonstrates the consideration of restoration and environmental exit costs when testing a long-lived asset for **impairment**. Paragraphs 360-10-35-18 through 35-19 also provide guidance for such testing for assets subject to asset retirement obligations.

360-10-55-2

For certain assets covered by this Subtopic, costs for future site restoration or closure (environmental exit costs) may be incurred if the asset is sold, is abandoned, or ceases operations. Environmental exit costs within the scope of this Subsection include:

a. Asset retirement costs recognized pursuant to Subtopic 410-20

b. Asset retirement costs that have not been recognized because the obligation has not been incurred

c. Certain environmental remediation costs that have not yet been recognized as a liability pursuant to Subtopic 410-30.

360-10-55-3

Pursuant to Subtopic 410-20, asset retirement costs may be incurred over more than one reporting period. For example, the liability for performing certain capping, closure, and postclosure activities in connection with operating a landfill is incurred as the landfill receives waste.

360-10-55-4

The related cash flows, if any, might not occur until the end of the asset's life if the asset ceases operations, or they might be deferred indefinitely as long as the asset is not sold or abandoned.

360-10-55-5

The issue is whether the cash flows associated with environmental exit costs that may be incurred if a long-lived asset is sold, is abandoned, or ceases operations should be included in the undiscounted expected future cash flows used to test a long-lived asset for recoverability under this Subtopic.

360-10-55-6

For environmental exit costs that have not been recognized as a liability for accounting purposes, whether those environmental exit costs shall be included in the undiscounted expected future cash flows used to test a long-lived asset for recoverability under this Subtopic depends on management's intent with respect to the asset. Pursuant to this Subtopic, if management's intent contemplates alternative courses of action to recover the carrying amount of the asset or if a range is estimated for the amount of possible future cash flows, the likelihood of those possible outcomes shall be considered. Examples of management's intent and the corresponding treatment of the environmental exit costs in this Subtopic's recoverability test are described below. (Environmental remediation costs discussed in certain of these cases refer to environmental remediation costs that have not yet been recognized as a liability pursuant to Subtopic 410-30.) This paragraph illustrates the guidance in paragraphs 360-10-35-29 through 35-35 on estimating future cash flows used to test a long-lived asset for recoverability.

Environmental Exit Costs that Shall Be Excluded from this Subtopic's Recoverability Test

360-10-55-7

The following guidance demonstrates the consideration of restoration and environmental exit costs when testing a long-lived asset for impairment. In all of the following situations, environmental exit costs would be excluded from this Subtopic's recoverability test.

Management Intends to Operate Asset, Future Cash Flows Exceed Carrying Amount, and No Expectation of Cash Outflow in Disposition

360-10-55-8

Management intends to operate the asset for at least the asset's remaining depreciable life, the sum of the undiscounted future cash flows expected from the asset's use during that period exceeds the asset's carrying amount including any associated goodwill, and management has no reason to believe that the asset's eventual disposition will result in a net cash outflow.

Management Expects to Operate Asset, Asset Generating Positive Cash Flows, Profitability Expected to Continue, and No Constraints on Economic Life

360-10-55-9

Management expects to operate the asset indefinitely and has the ability to do so, the asset is generating positive cash flows, management's best information indicates that the asset will continue to be profitable in the future, and there are no known constraints to the asset's economic life. This

Subtopic's recoverability test shall include the future cash outflows for repairs, maintenance, and capital expenditures necessary to obtain the future cash inflows expected to be generated by the asset based on its existing service potential.

Asset Has Finite Life but Remediation Costs Only Incurred if Asset Sold or Abandoned

360-10-55-10

The asset has a finite economic life, but environmental remediation costs will only be incurred if the asset is sold or abandoned. At the end of the asset's life, management intends either to close the asset permanently because the costs of remediating the asset exceed the proceeds that likely would be received if the asset were sold or, alternatively, to idle the asset by reducing production to a minimal or nominal amount. (Although the environmental remediation costs are excluded from this Subtopic's recoverability test, the recoverability test shall incorporate the entity's own assumptions about its use of the asset. That is, the recoverability test shall consider the likelihood of the alternative courses of action [either closing or idling the asset] and the resulting cash flows associated with those alternative courses.)

Management Expects to Sell Asset and Remediation Costs Not Required

360-10-55-11

Management expects to sell the asset in the future, and the asset's sale will not require the environmental remediation costs to be incurred. (Although the environmental remediation costs are excluded from this Subtopic's recoverability test, the fair value of the asset is likely to be affected by the existence of those costs. The diminished fair value shall be considered in estimating the cash flows expected to arise from the eventual sale of the asset.)

Environmental Exit Costs that Shall Be Included in this Subtopic's Recoverability Test

360-10-55-12

The following guidance demonstrates the consideration of restoration and environmental exit costs when testing a long-lived asset for impairment. In all of the following situations, environmental exit costs would be included in this Subtopic's recoverability test.

Management Expects Remediation Costs to Be Incurred but Uncertainties Exist in Application of Laws

360-10-55-13

Management expects to take a future action related to the asset that may cause the environmental remediation costs to be incurred. However, uncertainties or inconsistencies exist in how the related laws or regulatory requirements are applied. Management estimates, based on the weight of the available evidence, a 60 percent chance that the remediation costs will not be incurred and a 40 percent chance that those costs will be incurred. Pursuant to this Subtopic, other situations may exist in which cash flows are estimated using a single set or best estimate of cash flows.

Useful Life Limited and then Asset Disposition Required

360-10-55-14

The useful life of the asset is limited as a result of any of the following:

a. Actual or expected technological advances

b. Contractual provisions

c. Regulatory restrictions.

Also, when the asset's service potential has ended, management will be required to dispose of the asset under paragraph 360-10-55-16 or 360-10-55-17.

Continuing Losses May Require Asset Disposition

360-10-55-15

The asset has a current period cash flow loss from operations combined with a projection or forecast that anticipates continuing losses. Management expects the asset to achieve profitability in the future but uncertainty exists about management's ability to fund the future cash outflows up to the time that net cash inflows are expected from the asset's use. In the event of a forced liquidation, management would likely dispose of the asset under the following paragraph or paragraph 360-10-55-17.

Intent to Abandon or Close an Asset

360-10-55-16

Management intends to abandon or close the asset in the future, and the event of abandonment or closure will cause the environmental remediation costs to be incurred.

Future Sale Will Require Remediation Costs to Be Incurred

360-10-55-17

Management intends to sell the asset in the future, and the applicable laws, regulations, or interpretations thereof require that appropriate environmental remediation (not within the scope of Subtopic 410-20) occur in connection with the sale.

Management Expects to Operate Asset and Retirement Costs to Be Incurred over Its Life

360-10-55-18

Management expects to operate the asset for the remainder of its useful life. Related asset retirement costs are incurred over the life of the asset (for example, the operation of a landfill). Estimated cash flows associated with the asset retirement costs yet to be incurred and recognized shall be included in this Subtopic's recoverability test.

2.3.2.9 Cash flow estimates for certain intangible assets

Because of their unique nature, the calculation of cash flows relating to certain assets, particularly income-producing definite-lived intangible assets (e.g., patents, restrictive licenses, franchise agreements) might be particularly difficult to estimate. The estimated cash flows for such assets must reflect the direct revenue expected to be generated by that particular asset (versus the overall revenue of the division or entity) as well as an allocation of expenses. Alternatively, estimating cash flows for certain intangibles, such as royalty and franchise agreements, might involve less effort because they might have relatively fixed and/or predictable revenue streams.

2.3.2.10 Performing the test for recoverability

Once undiscounted cash flows are estimated for a long-lived asset (group) being evaluated for recoverability, those cash flows are compared with the respective carrying amount of that asset (group). If the estimated undiscounted cash flows exceed the carrying amount of the assets, the carrying amounts of the long-lived asset (group) are considered recoverable and an impairment cannot be recorded. However, if the carrying amount of a group of assets exceeds the undiscounted cash flows, an entity must then measure the fair value of the long-lived asset (group) to determine whether an impairment loss should be recognized. If the resulting fair value is less than the carrying value of the long-lived asset (group), an impairment loss is recognized for that difference. Below is a simple example illustrating this process.

Illustration 2-10: Test for recoverability

The management of ATL decides to undertake a strategic redirection by increasing production and marketing efforts on certain high margin products while continuing to produce other low margin products at reduced production levels. As part of the strategic undertaking, ATL's management identified two divisions (i.e., its two divisions that manufacture and sell two different low margin products and that have been doing poorly in recent years), which individually represent the lowest level of identifiable cash flows that might be impaired as a result of this decision. Information about the two groups of assets is as follows:

	Division A	Division B	Total
Carrying amount of assets	$ 10,000,000	$ 10,000,000	$ 20,000,000
Undiscounted estimated cash flows attributable to future operations and eventual sale	$ 12,000,000	$ 9,000,000	$ 21,000,000
Fair value of assets	$ 8,000,000	$ 7,000,000	$ 15,000,000

The assets of Division A are recoverable under ASC 360-10 (even though their fair value is less than their carrying amount) because the undiscounted future cash flows exceed the carrying amount of the assets. As a result, ATL cannot record an impairment for the assets of Division A. The assets of Division B are not recoverable because the sum of the undiscounted cash flows of $9 million is less than the $10 million carrying amount of the assets. Accordingly, ATL would be required to write-down the assets of Division B by $3 million to arrive at their fair value. Note that even though the total undiscounted cash flows for the assets of Divisions A and B exceed the combined carrying amount of the assets ($21 million of estimated cash flows compared with a $20 million carrying amount), ATL would still record an impairment loss on Division B because of ASC 360-10's requirement to group assets at the lowest level of identifiable cash flows that are largely independent of other assets and liabilities.

In some cases, the inclusion of liabilities (e.g., operating lease liabilities after the adoption of ASC 842) in a long-lived asset group could result in a zero or negative carrying amount. In these cases, an entity is still required to test whether the carrying amount of the asset group is recoverable and, if not recoverable, measure the asset group for impairment (e.g., if estimated undiscounted future cash flows are more negative than the negative carrying amount, this would indicate the asset group is not recoverable). Refer to section 2.7.1 for a discussion of the test of recoverability when operating lease liabilities are included in the asset group.

2.4 Measuring an impairment — Step 3

If the undiscounted cash flows used in the recoverability test are less than the carrying amount of the long-lived asset (group), an entity is required to determine the fair value of the long-lived asset (group) and recognize an impairment loss if the carrying amount of the long-lived asset (group) exceeds its fair value.

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-36

For long-lived assets (asset groups) that have uncertainties both in timing and amount, an expected present value technique will often be the appropriate technique with which to estimate fair value.

This section provides guidance on the application of ASC 820 when determining fair value measurements related to the impairment or disposal of long-lived assets. Refer to our FRD, ***Fair value measurement***, for detailed guidance regarding the application of ASC 820.

2.4.1 Fair value — Overview of ASC 820

ASC 820 is principles-based guidance that establishes a framework for measuring fair value in US GAAP. ASC 820 includes a single definition of fair value that should be used for financial reporting purposes, provides a framework for applying this definition and requires numerous disclosures about the use of fair value measurements in the financial statements. The definition of fair value under ASC 820 is:

"The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

The definition of fair value in ASC 820 is based on an exit price notion, which incorporates the following key concepts:

- Fair value is the price to sell an asset or transfer a liability and, therefore, represents an exit price, not an entry price.
- The exit price for an asset or liability is conceptually different from its transaction price (an entry price). While exit and entry price may be identical in many situations, the transaction price is not presumed to represent the fair value of an asset or liability on its initial recognition.
- Fair value is the exit price in the principal market (or, absent a principal market, the most advantageous market) for the asset or liability in which the reporting entity would transact. The fair value measure is not adjusted for transaction costs.
- Fair value is a market-based measurement, not an entity-specific measurement and, as such, is determined based on the assumptions that market participants would use in pricing the asset or liability. In pricing a nonfinancial asset, market participants would consider the highest and best use of the asset (the use that would maximize the value of the asset), even if that use differs from the current or intended use by the reporting entity.
- The exit price objective of a fair value measurement applies regardless of the reporting entity's intent or ability to sell the asset or transfer the liability at the measurement date. Fair value is intended to represent an exit price in the current market, not the potential value of the asset or liability at some future date (e.g., the amount the reporting entity expects to realize on settlement or maturity).
- A fair value measurement should include an adjustment for risk if a market participant would include one in pricing the asset or liability, even if the adjustment is difficult to determine.

Certain of the important concepts highlighted within ASC 820 are discussed further below.

2.4.1.1 Exit price

ASC 820 acknowledges that in many situations, transaction price will equal exit price and, therefore, represents fair value at initial recognition, but it does not presume this to be the case. The exit price concept inherently places additional focus on market participants' assumptions (i.e., fair value is a market-based measurement, not an entity-specific measurement). Additional complexity could arise in situations where exit and entry markets differ or when multiple exit markets exist for an asset and the principal market must be determined.

2.4.1.2 Highest and best use

Highest and best use is a valuation concept for nonfinancial assets that establishes the premise of value based on the use of an asset by market participants that would maximize the benefit, or value, of the asset or the group of assets to market participants. The highest and best use concept considers whether the asset will be used on a standalone basis or in combination with other assets and/or liabilities (e.g., a business). Under either valuation premise (i.e., standalone or in combination) fair value is measured as the exit price in an assumed transaction.

Even if the intended use by the reporting entity is the same as the highest and best use of the asset or asset group, the underlying assumptions used to estimate the fair value the asset(s) must consider market participant assumptions, not entity-specific assumptions. Synergies market participants could achieve must be considered in the determination of the highest and best use of a nonfinancial asset. Entity-specific synergies, if they would differ from market participant synergies, are not considered in the determination of highest and best use, and ultimately the determination of fair value.

2.4.1.3 Risk premiums

Because fair value is a market-based measurement, not an entity-specific measurement, it reflects all the assumptions that market participants would use in pricing an asset or liability, including assumptions about risk. ASC 820 requires the inclusion of a risk adjustment in measuring fair value if a market participant would include one in pricing the asset or liability, even if the adjustment is difficult to determine. The exclusion of a risk premium when a market participant would assume one results in a measure that does not faithfully represent fair value. As such, the degree of difficulty in determining a risk adjustment is not a basis to exclude an adjustment from the determination of fair value under ASC 820.

2.4.1.4 Valuation techniques

ASC 820 recognizes three valuation techniques to measure fair value: the market approach, income approach and cost approach. These three approaches are consistent with generally accepted valuation methodologies utilized outside financial reporting. While not all three approaches will be applicable for many assets or liabilities, ASC 820 notes that a reporting entity measures the fair value of an asset or liability using all valuation techniques that are appropriate in the circumstances and for which adequate data is available.

ASC 820 does not prioritize the use of one valuation technique over another, but rather prioritizes the use of observable inputs over unobservable inputs when applying those valuation techniques. The selection of the valuation method(s) to apply should consider the exit market for the asset or liability and the nature of the asset or liability being measured.

2.4.2 Cash flows used in the recoverability test versus those used to determine fair value

As discussed above, if indicators of impairment exist for an asset (group) to be held and used, an entity determines whether the sum of the estimated undiscounted future cash flows attributable to the asset (group) in question is less than its carrying amount. If those undiscounted cash flows are less than the carrying amount, then an entity will recognize an impairment loss based on the excess of the carrying amount of the asset (group) over its respective fair value. As discussed in section 2.3.2, ASC 360-10-35-30 specifies that the cash flow estimates used in the recoverability test (Step 2) be based on entity-specific assumptions:

> *Estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) shall incorporate the entity's own assumptions about its use of the asset (asset group) and shall consider all available evidence. The assumptions used in developing those estimates shall be reasonable in relation to the assumptions used in developing other information used by the entity for comparable periods, such as internal budgets and projections, accruals related to incentive compensation plans, or information communicated to others.*

However, under ASC 820 cash flows used to determine fair value (using a present value technique) when determining the impairment loss (Step 3) must include assumptions that market participants would use in their estimates of fair value. As a result, entities are not able to simply apply a discount rate to the cash flows used in Step 2 to determine fair value without first determining whether they reflect the expectations of market participants. Entities may use their own assumptions as a starting point in developing market participant assumptions and apply reasonable judgment in analyzing whether such assumptions are representative of market participant assumptions.

The following are examples of situations in which cash flow estimates may need to be adjusted to reflect market participant assumptions:

- The entity might intend a different use or settlement than that anticipated by market participants. For example, the entity might intend to operate a property as a bowling alley, even though others in the marketplace consider its highest and best use to be a parking lot.
- The entity might hold special preferences, like tax or zoning variances, not available to market participants.
- The entity might hold information, trade secrets or processes that allow it to realize (or avoid paying) cash flows that differ from market participants' expectations.
- The entity might be able to realize or pay amounts through the use of internal resources. For example, an entity that manufactures materials used in particular processes acquires those materials at cost, rather than at the market price charged to others. An entity that chooses to satisfy a liability with internal resources may avoid the markup or anticipated profit charged by outside contractors.

The determination of market participant assumptions and their effect on fair value estimates are particularly subjective considering that the evaluation is being made for assets to be held and used. The FASB recognizes that there may be practical problems in determining the fair value of certain types of long-lived assets (groups) that do not have observable market prices and that, in some circumstances, the only information available to estimate fair value without undue cost and effort will be the entity's own estimates of future cash flows. Therefore, an entity is not precluded from using its own assumptions as long as there is no information indicating that market participants would use different assumptions.

Just because the carrying amount of a long-lived asset (group) fails the test for recoverability (i.e., its carrying amount exceeds the undiscounted cash flows), does not mean an entity will always record an impairment loss. In performing a recoverability test an entity uses undiscounted cash flows, whereas in performing a present value technique an entity determines fair value based on discounted cash flows. In rare instances, an impairment loss will not be recorded when an entity increases the cash flows used in the recoverability test to reflect market participant assumptions such that after the increase, the discounted cash flows are in excess of the carrying amount of the long-lived asset (group). As noted in the examples above, this may occur when an entity is not using the long-lived asset (group) at its highest and best use (e.g., as a bowling alley instead of as a parking lot).

See our FRD, ***Fair value measurement***, for further discussion of the use of an entity's own assumptions when measuring fair value.

2.4.3 Unit of valuation and unit of account

As discussed in section 2.3.1, the unit of account for assets to be held and used is a long-lived asset or assets grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The unit of account is the basis for the recognition and measurement of an impairment loss. Any impairment loss is allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the carrying amount of an individual long-lived asset cannot be reduced below its fair value. ASC 820-10-35-11A specifies:

> *The fair value measurement of a nonfinancial asset assumes that the asset is sold consistent with the unit of account specified in other Topics (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and associated liabilities.*

If an entity determines that the unit of valuation is at a higher level than the unit of account (the asset group) for assets held and used under ASC 360-10 (i.e., the unit of valuation includes more of the entity's assets and liabilities than the asset group), we believe that the entity should reconsider the asset group and unit of valuation. That is, an entity should be able to reconcile why the determination of the asset group (i.e., the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities) is appropriate when it excludes assets that are included in the unit of valuation. While possible, we believe it will be rare that an entity concludes that the unit of valuation includes assets not in the asset group.

One example of an instance where the unit of valuation could exceed the unit of account for long-lived assets to be held and used under ASC 360-10 would be a situation in which the highest and best use of the asset (or asset group) is deemed to include synergistic assets held by (or available to) market participants generally, but not held by the reporting entity. Given the profit maximizing goal of most entities, as well as the role of the markets in allocating capital amongst entities, we would expect such instances to be uncommon. However, under such a fact pattern, the guidance in ASC 820 requires a reporting entity to consider market participant synergies in determining the fair value of the asset group even though such an approach could potentially result in no impairment charge recorded on an asset whose current carrying amount is deemed unrecoverable. An example may be a situation where the reporting entity does not (or is not able to) utilize the assets in accordance with their highest and best use and the entity-specific undiscounted cash flows, which do not contemplate a near-term sale, do not exceed the assets' carrying amount. If the fair value of the assets considering their highest and best use from the perspective of market participants exceeds the assets' carrying value, then no impairment charge would be recorded. While this outcome may seem counterintuitive to some, it is consistent with the concept in ASC 820 that any specific competitive disadvantage of the reporting entity should not be included in the measurement of fair value.

Notwithstanding the points noted above, it is important to remember that the unit of account is the basis for the recognition and measurement of an impairment loss under ASC 360-10. As such, while the unit of valuation could potentially consider the effect of synergistic assets not included in the unit of account, the objective in the impairment analysis is to determine the fair value of the asset group as determined under ASC 360-10. Said differently, while the price market participants would be willing to pay for the assets in the asset group determined under ASC 360-10 could be affected by their expected use in combination with other synergistic assets, the value of these other synergistic assets themselves would not be considered in the impairment analysis.

2.4.4 Considerations in assessing appraisals

The *Uniform Standards of Professional Appraisal Practice* (USPAP) are the generally accepted standards for professional appraisal practice in North America in valuing real estate, personal property and businesses. Although certain of the concepts of ASC 820 may be similar to concepts in USPAP, an assessment of the appraisal must be performed to determine that the appraised value is an appropriate measure of fair value for financial reporting purposes (that is, the appraisal has been performed in accordance with the principles of ASC 820).

The use of a third-party valuation specialist does not reduce management's ultimate responsibility for the fair value measurements (and related disclosures) in the entity's financial statements. Management must understand the assumptions used in the valuations, including those performed in accordance with the USPAP, and determine whether the assumptions are consistent with the principles of ASC 820. That is, management may determine that an adjustment to the valuation may be necessary to comply with the provisions of ASC 820. Further, this due diligence should enable management to assess the observability of the inputs for purposes of determining the level of the fair value measurement within the fair value hierarchy.

For example, traditional real estate appraisal procedures and reports may not anticipate or explicitly address the requirements of ASC 820. It is possible that an appraisal (whether prepared internally or externally) includes assumptions that are not consistent with the principles of ASC 820. An appraisal utilized for financial reporting purposes must be evaluated to determine whether the appraisal process and report are consistent with the requirements of ASC 820. Such an evaluation would include, but is not limited to, whether:

- The principal or most advantageous market has been appropriately considered.
- Appropriate market participants (or characteristics of market participants) have been identified and the assumptions market participants would utilize in pricing the asset have been used.
- Inputs to the valuation approaches maximize the use of observable data to the extent possible.
- Adjustments to market data are (1) based on observable or unobservable inputs or (2) significant to the overall fair value measure.
- All appropriate valuation approaches and techniques have been utilized.

When multiple valuation techniques are used, the merits of each valuation technique and the underlying assumptions embedded in each of the techniques should be considered in evaluating and assessing the results.

For example, if an appraisal of an office building was performed in accordance with the USPAP, the appraiser should analyze the relevant legal, physical and economic factors to the extent necessary to support a conclusion as to the highest and best use of the building. The appraisal of the office building may incorporate market participant assumptions about the future state of the building, rather than the building's current condition at the measurement date. Expectations about future improvements or modifications to be made to the building may be considered in the appraisal, such as the renovation of the building or the conversion of the office building into condominiums. However, the objective of the fair value measurement is to value the asset in its current form (e.g., as an office building).

As such, while market data (or expected future cash flows) associated with a transformed asset could be considered in estimating fair value, these inputs would need to be adjusted for renovation or transformation costs (such as legal, rezoning and remodeling costs) and the associated profits expected by a market participant in determining whether an alternative use of the asset would maximize the value of the asset. Accordingly, management must evaluate whether transformation costs and any associated profits resulting from the transformation process have been included in the appraised value and if the inclusion of such amounts is appropriate.

2.4.5 Present value techniques

As noted above, an expected present value technique will often be the appropriate technique to estimate the fair value of an asset (group) when uncertainties exist in both the timing and amount of the cash flows. The FASB notes that a fair value measurement using a present value technique should capture all of the following elements from the perspective of market participants as of the measurement date (outlined in ASC 820-10-55-5):

- An estimate of future cash flows for the asset or liability being measured.
- Expectations about possible variations in the amount and/or timing of the cash flows representing the uncertainty inherent in the cash flows.
- The time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows (risk-free interest rate). For present value computations denominated in nominal U.S. dollars, the yield curve for U.S. Treasury securities determines the appropriate risk-free interest rate.

- The price for bearing the uncertainty inherent in the cash flows (risk premium).
- Other factors that market participants would take into account in the circumstances.
- For a liability, the nonperformance risk relating to that liability, including the reporting entity's (that is, the obligor's) own credit risk.

Two general approaches to estimate fair value using a present value technique exist and are described in the implementation guidance in ASC 820-10-55 — the Discount Rate Adjustment Technique (referred to as the traditional approach in CON 7) and the Expected Cash Flow (Expected Present Value) Technique (referred to as the expected cash flow approach in CON 7).

The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts (whether contractual or most likely cash flows) with adjustments for (1) market participants' expectations about possible variations in the amount or timing of those cash flows (including risk of default); (2) the time value of money, represented by the risk-free rate of interest; (3) the price for bearing the uncertainty inherent in the cash flows; and (4) other, sometimes unidentifiable, factors including illiquidity and market imperfections all embedded in the discount rate (i.e., the discount rate is "commensurate with the risks involved").

Under the expected present value technique, possible cash flows are probability-weighted to determine an expected cash flow. Unlike the single most likely cash flows used in the discount rate adjustment technique, the expected cash flows used in the expected present value technique captures the variability in the timing and amount of future cash flows associated with the asset (group). When an expected present value technique is used, an adjustment for systematic risk (a market risk premium) can be captured either in the discount rate or by adjusting the expected cash flows. These *risk-adjusted* expected cash flows represent a certainty-equivalent cash flow which is discounted at a risk-free rate of interest (assuming credit risk has been captured in the expected cash flows). Alternatively, the expected cash flows (with no adjustment for systematic risk) would be discounted at the risk-free rate plus a risk premium.

Refer to ASC 820-10-55-10 through 55-20 for additional information on applying both the discount rate adjustment technique and the expected present value technique.

While ASC 360-10-35-36 notes that the expected present value technique often will be the most appropriate valuation technique for long-lived assets (asset groups) that have uncertainties in both the amount and timing of estimated cash flows, the FASB decided not to specify a requirement for either present value technique. The FASB decided that entities should determine the present value technique best suited to their specific circumstances based on the guidance in CON 7 and ASC 820-10-55-4 through 55-20.

2.4.5.1 Discount rate adjustment technique

The discount rate adjustment technique assumes that the discount rate can reflect all expectations about the future cash flows and an appropriate risk premium. In other words, the discount rate incorporates not only the time value of money (i.e., risk-free rate of interest) but also all the expectations about the future cash flows (i.e., timing and amount) and the appropriate risk premium. The discount rate adjustment technique is most commonly used to value assets and liabilities with contractual payments, such as debt instruments.

The discount rate adjustment technique places most of its emphasis on the selection of the discount rate. The rate should be commensurate with the risk and requires analysis of at least two items — (1) one or multiple assets or liabilities that exists in the market and has an observed interest rate and (2) the asset or liability being measured as discussed in ASC 820-10-55-11. The appropriate rate of interest for the cash flows being measured must be inferred from the calculable rate of interest in the other assets or liabilities and to draw that inference, the characteristics of the cash flows must be similar to those of the asset being measured.

Due to the complexities involved in determining the appropriate rate, it may be necessary to obtain the assistance of a valuation specialist in developing discount rates appropriate for the specific long-lived asset when using the discount rate adjustment technique. As a reminder, simply using an entity's borrowing rate or cost of funds by default would not be appropriate. Refer to section 21.2 of our FRD, ***Fair value measurement***, for additional discussion of the discount rate adjustment technique.

2.4.5.2 Expected present value technique

The expected present value technique is prevalent in the valuation of business entities, assets and liabilities with contingent or conditional payouts and items for which discount rates cannot be readily implied from observable transactions. Whereas the discount rate adjustment technique uses contractual, or most likely, cash flows in estimating fair value, expected present value techniques consider probability-weighted cash flows. Expectations about possible variations in the amount and/or timing of the cash flows are explicitly incorporated in the expected cash flows, instead of the discount rate.

In theory, these expected cash flows are intended to represent the probability-weighted average of all possible cash flows associated with the asset or liability. In practice, however, only a discrete number of scenarios are usually considered to capture the probability distribution of the cash flows. The number of outcomes (or scenarios) considered generally depends on the characteristics of the asset or liability being measured.

The expected present value technique is useful in analyzing a long-lived asset (group) if it has a number of possible future cash flows or if the possibilities are expressed in ranges. The major difference in this approach is the assignment of probabilities to the cash flows. Although many may find this approach to be imprecise, an assessment of probabilities is implicitly included in the discount rate adjustment technique in the selection of a discount rate. As a result, entities may wish to consider using the expected present value technique in situations involving uncertain cash flows, because it incorporates a consideration of the uncertainties associated with the forecasted cash flows.

The concept of a risk premium is just as important under an expected present value technique as it is under the discount rate adjustment technique. ASC 820 clarifies that the use of probability-weighted cash flows under an expected present value technique does not obviate the need to consider a risk premium when estimating fair value. Although "expected cash flows" include the potential variability (or uncertainty) in the amount and timing of future cash flows, the probability weighting, in and of itself, does not incorporate the compensation market participants would demand for bearing this uncertainty (refer to section 21.3 of our FRD, ***Fair value measurement***, for additional discussion of the expected present value technique).

The following is from the implementation guidance included in ASC 360-10-55-23 through 55-32 and illustrates the application of the expected present value technique.

Illustration 2-11: Expected present value technique

As of 31 December 20X2, a manufacturing facility with a carrying amount of $48 million is tested for recoverability. At that date, 2 courses of action to recover the carrying amount of the facility are under consideration — sell in 2 years or sell in 10 years (at the end of its remaining useful life).

The possible cash flows associated with each of those courses of action are $41 million and $48.7 million, respectively. They are developed based on entity-specific assumptions about future sales (volume and price) and costs in varying scenarios that consider the likelihood that existing customer relationships will continue, changes in economic (market) conditions, and other relevant factors.

The following table shows by year the computation of the expected cash flows used in the measurement. They reflect the possible cash flows (probability-weighted) used to test the manufacturing facility for recoverability, adjusted for relevant marketplace assumptions, which increases the possible cash flows in total by approximately 15 percent.

Year	Possible cash flows (market)	Probability assessment	Expected cash flows (undiscounted)
(in $ millions)			
1	$ 4.6	20%	$ 0.9
	6.3	50	3.2
	7.5	30	2.3
			$ 6.4
2	$ 4.6	20%	$ 0.9
	6.3	50	3.2
	7.5	30	2.3
			$ 6.4
3	$ 4.3	20%	$ 0.9
	5.8	50	2.9
	6.7	30	2.0
			$ 5.8
4	$ 4.3	20%	$ 0.9
	5.8	50	2.9
	6.7	30	2.0
			$ 5.8
5	$ 4.0	20%	$ 0.8
	5.4	50	2.7
	6.4	30	1.9
			$ 5.4
6	$ 4.0	20%	$ 0.8
	5.4	50	2.7
	6.4	30	1.9
			$ 5.4
7	$ 3.9	20%	$ 0.8
	5.1	50	2.6
	5.6	30	1.7
			$ 5.1
8	$ 3.9	20%	$ 0.8
	5.1	50	2.6
	5.6	30	1.7
			$ 5.1
9	$ 3.9	20%	$ 0.8
	5.0	50	2.5
	5.5	30	1.7
			$ 5.0
10	$ 4.9	20%	$ 1.0
	6.0	50	3.0
	6.5	30	2.0
			$ 6.0

The following table shows the computation of the expected present value; that is, the sum of the present values of the expected cash flows by year, each discounted at a risk-free interest rate determined from the yield curve for U.S. Treasury instruments. A market risk premium is included in the expected cash flows; that is, the cash flows are certainty-equivalent cash flows. As shown, the expected present value is $42.3 million, which is less than the carrying amount of $48 million. In accordance with paragraph 360-10-35-17 the entity would recognize an impairment loss of $5.7 million.

Year	Expected cash flows	Risk-free rate of interest	Present value
(in $ millions)			
1	$ 6.4	5.0%	$ 6.1
2	6.4	5.1	5.8
3	5.8	5.2	5.0
4	5.8	5.4	4.7
5	5.4	5.6	4.1
6	5.4	5.8	3.9
7	5.1	6.0	3.4
8	5.1	6.2	3.2
9	5.0	6.4	2.9
10	6.0	6.6	3.2
	$ 56.4		$ 42.3

2.4.6 Considerations in developing valuation assumptions

An important aspect of performing or evaluating a valuation analysis is to determine that the assumptions are reasonable and consistently applied. The SEC staff has indicated that it will continue to challenge cash flow estimates and related assumptions used in estimating fair value. The following are the types of questions that should be considered when reviewing the assumptions used in a valuation analysis that employs a present value technique:

- Has the uncertainty associated with the amount and timing of cash flows been reflected in the estimated future cash flows or in the discount rate, but not both?
- If the underlying assumptions are based on the entity's intended use of an asset, is there any information available to suggest that market participants would use different assumptions? If so, the market participant assumptions should be used.
- Are the revenue and expense assumptions consistent with historical performance and industry outlook?
- Are all reasonable expenses included in the analysis unless there is a reasonable, documented explanation for their exclusion?
- If historical profit margins are used as a guide for determining whether all reasonable expenses are included, have other factors been considered that may cause historical measures to be inappropriate (e.g., new competition)?
- Is the discount rate used consistent with the nature of the forecast and appropriate based on the reporting unit's (or asset's) particular facts and circumstances?
- If an industry weighted-average cost of capital was considered in selecting the appropriate discount rate, is it appropriate?

2.4.7 Consideration of debt in the fair value of an asset group

When the FASB originally deliberated Statement No. 144, it considered and rejected requests for a limited exception to the fair value measurement for impaired long-lived assets that are subject to nonrecourse debt. Some constituents believed that the impairment loss on an asset subject entirely to nonrecourse debt should be limited to the loss that would occur if the asset were put back to the lender. The FASB decided not to provide an exception for assets subject to nonrecourse debt. In the Basis for Conclusions of Statement No. 144, the FASB explained that the *recognition of an impairment loss and the recognition of a gain on the extinguishment of debt are separate events, and each event should be recognized in the*

period in which it occurs. The Board believes that the recognition of an impairment loss should be based on the measurement of the asset at its fair value and that the existence of nonrecourse debt should not influence that measurement. (Statement No. 144, paragraph B34)

2.5 Allocation of an impairment loss

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-28

An impairment loss for an asset group shall reduce only the carrying amounts of a long-lived asset or assets of the group. The loss shall be allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group shall not reduce the carrying amount of that asset below its fair value whenever that fair value is determinable without undue cost and effort. See Example 1 (paragraph 360-10-55-20) for an illustration of this guidance.

An impairment loss reduces only the carrying amount of the long-lived assets of the group that are covered by ASC 360-10. Thus, in no circumstance will goodwill, indefinite-lived intangibles or other assets excluded from the scope of ASC 360-10 (or liabilities if part of an asset group) be affected by an impairment loss recognized under ASC 360-10, even if those assets or liabilities are included in the asset group being tested for recoverability.

The impairment loss reduces the carrying amount of long-lived assets of a group covered by ASC 360-10, on a pro rata basis using the relative carrying amounts of those assets. However, the carrying amount of a long-lived asset of the group would not be reduced below its fair value, if determinable. An example included in the implementation guidance at ASC 360-10-55-20 through 55-22 illustrates the allocation of an impairment loss to individual assets in a group on a pro rata basis with and without observable market values, which is the basis for Illustration 2-12.

Illustration 2-12: Allocation of impairment loss

An entity owns a manufacturing facility that together with other assets is tested for recoverability as a group. In addition to long-lived assets (Assets A–D), the asset group includes inventory, which is reported based on the applicable subsequent measurement guidance in ASC 330-10-35, and other current assets and liabilities. The $2.75 million aggregate carrying amount of the asset group is not recoverable and exceeds its fair value by $600,000. The impairment loss of $600,000 would be allocated as shown below to the long-lived assets of the group.

Asset group	Carrying amount	Pro rata allocation factor	Allocation of impairment (loss)	Adjusted net carrying amount
(In $ 000s)				
Current assets	$ 400	–	$ –	$ 400
Liabilities	(150)	–	–	(150)
Long-lived assets:				
Asset A	$ 590	24%	$ (144)	$ 446
Asset B	780	31	(186)	594
Asset C	950	38	(228)	722
Asset D	180	7	(42)	138
Subtotal — long-lived assets	2,500	100%	(600)	1,900
Total-net	$ 2,750	100%	$ (600)	$ 2,150

If the fair value of an individual long-lived asset of an asset group is determinable without undue cost and effort and exceeds the adjusted carrying amount of that asset after an impairment loss is allocated initially, the excess impairment loss initially allocated to that asset would be reallocated to the other long-lived assets of the group. For example, if the fair value of Asset C is $822,000, the excess impairment loss of $100,000 initially allocated to that asset (based on its adjusted carrying amount of $722,000) would be reallocated as shown below to the other long-lived assets of the group on a pro rata basis using the relative adjusted carrying amounts of those assets.

Long-lived assets of asset group	Adjusted carrying amount	Pro rata reallocation factor	Reallocation of excess impairment (loss)	Adjusted carrying amount after reallocation
(In $ 000s)				
Asset A	$ 446	38%	$ (38)	$ 408
Asset B	594	50	(50)	544
Asset D	138	12	(12)	126
Subtotal	1,178	100%	(100)	1,078
Asset C	722		100	822
Total	$ 1,900		$ 0	$ 1,900

In this illustration, the excess impairment on Asset C of $100,000 is reallocated to the other long-lived assets in the asset group. When reallocating the excess impairment, the carrying amounts of the other long-lived assets also cannot be reduced below their respective fair values. If the initial allocation of the impairment loss already reduced the carrying amounts of Assets A, B and D to their respective fair values, then the total impairment loss measured cannot be recognized, because the carrying amount of an individual asset cannot be reduced below its fair value. As a result, the total impairment loss recognized would only be $500,000.

If an entity believes that it cannot record the entire impairment loss measured for an asset group, because to do so would be to record the individual long-lived assets below their respective fair values, we believe that an entity should first reevaluate the carrying amounts of other assets and liabilities outside of the scope of ASC 360-10 in accordance with ASC 360-10-35-27 (see section 2.3.1.4). If necessary, an entity should then reevaluate its determination of the fair values of the individual long-lived assets in the asset group.

2.6 New cost basis

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-20

If an impairment loss is recognized, the adjusted carrying amount of a long-lived asset shall be its new cost basis. For a depreciable long-lived asset, the new cost basis shall be depreciated (amortized) over the remaining useful life of that asset. Restoration of a previously recognized impairment loss is prohibited.

Once an impairment loss is allocated to the carrying values of the long-lived asset(s) held and used, the reduced carrying amount represents the new cost basis of the long-lived asset(s). As a result, entities are prohibited from reversing the impairment loss should facts and circumstances change. In addition, future depreciation or amortization would be based on the asset's new cost basis. As discussed in section 2.2.1, it also may be appropriate to consider changing the asset's salvage value.

An interesting consequence of the FASB's approach is that if fair value is determined by discounting future cash flows at a risk-adjusted rate of return, the written-down assets likely will be very profitable in the future if the entity achieves the cash flows used in the model. The new cost basis will result in significantly lower depreciation charges while the assets will generate cash flows providing a risk-adjusted rate of return (assuming the cash flow estimates turn out to be accurate).

2.7 Impairment of right-of-use assets (after the adoption of ASC 842) (updated May 2023)

Excerpt from Accounting Standards Codification

Leases — Lessee

Subsequent Measurement

842-20-35-9

A **lessee** shall determine whether a **right-of-use asset** is impaired and shall recognize any impairment loss in accordance with Section 360-10-35 on impairment or disposal of long-lived assets.

A lessee's ROU asset in an operating or finance lease is subject to the impairment guidance in ASC 360-10. A lessee also applies this guidance when there are significant changes to the current or expected use of an ROU asset (e.g., when an ROU asset has been or will be abandoned) because such changes could affect the asset groupings used to evaluate the ROU asset for impairment and the estimated useful life of both an ROU asset and any leasehold improvements associated with the leased asset.

The FASB indicated in the Background information and Basis for Conclusions (BC 255) of ASU 2016-02, *Leases*, that the impairment model in ASC 360-10 is appropriate to apply to a lessee's ROU assets because these assets are long-lived nonfinancial assets and should be accounted for the same way as an entity's other long-lived nonfinancial assets. This treatment is intended to give users of the financial statements comparable information about all of an entity's long-lived nonfinancial assets.

Grouping long-lived assets

ASC 360-10 defines an asset group as "the unit of accounting for a long-lived asset or assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities." Assets generally should be grouped when they are used together (i.e., when they are part of the same group of assets and are used together to generate joint cash flows).

Grouping long-lived assets requires judgment and will require consideration of the facts and circumstances as well as an understanding of the entity's business. We believe the impairment assessment for ROU assets often will be performed at an asset-group level with any impairment allocated among the long-lived assets of the group in accordance with ASC 360-10.

Each time a lessee performs a recoverability test, it should reassess whether its grouping of long-lived assets continues to be appropriate. Significant changes to the current or expected use of the individual assets of the group might indicate that the asset grouping has changed. This might be the case even when the ROU asset is not the primary asset in the asset group.

When evaluating whether the inclusion of an ROU asset in an asset group continues to be appropriate, a lessee needs to determine whether there has been a fundamental change in the use of the leased asset. For example, a functionally independent asset that is abandoned (e.g., a building) may no longer be part of an existing asset group. Refer to section 4.2.5.3, *Abandonment of ROU assets*, of our FRD, ***Lease accounting: Accounting Standards Codification 842*, Leases**, for discussion on when an ROU asset is abandoned. However, it may be challenging to determine whether an ROU asset that is not (or will not be) abandoned has changed asset groups or is a separate asset group. Examples of situations that could indicate the asset group has changed for an ROU asset that is not (or will not be) abandoned include:

- The lessee has ceased using the leased asset and does not plan to reoccupy or use the leased asset in the future.
- The lessee has incurred significant costs (e.g., readying the space for sublease by removing signage) to cease using the leased asset in the near future.
- The lessee has executed a sublease for the leased asset for substantially all of the remaining lease term.
- The lessee is actively marketing the leased asset for sublease (e.g., hired a broker).
- The lessee has changed how the leased asset is used in its operations, including moving the leased asset to a different line of business in a different asset group.

These situations are not all inclusive, and no one situation is determinative. A lessee will need to evaluate its facts and circumstances to determine whether there is a change in how it uses the leased asset and whether the asset group has changed. A *plan* to change how the leased asset will be used by the business or to sublease the leased asset, by itself, generally does not indicate that the ROU asset's group has changed, since the lowest level of identifiable cash flows has not yet changed. For example, a lessee may decide that in one year it will sublease a leased asset that is part of an enterprise-wide asset group but it will continue to use the leased asset until then. The ROU asset would still be part of the enterprise-wide asset group because the lessee continues to use the leased asset.

Refer to section 6.3, *Sublessor accounting*, of our FRD, ***Lease accounting: Accounting Standards Codification 842*, Leases**, for discussion on evaluating the grouping of long-lived assets when a lessee has executed a sublease for a leased asset in the asset group.

2.7.1 Right-of-use assets — test for recoverability (Step 2) (updated August 2021)

ASC 360-10 provides principles for evaluating long-lived assets for impairment, but it does not specifically address how lease liabilities should be considered in the recoverability test. Under ASC 360-10, financial liabilities (e.g., long-term debt) generally are excluded from an asset group and operating liabilities (e.g., accounts payable) generally are included. Financial liabilities generally are excluded because when the FASB was deliberating Statement No. 144 (later codified in ASC 360-10), it indicated that how an entity capitalizes or finances its operations should not influence the recognition of an impairment loss (Statement No. 144, paragraph B34). ASC 360-10 requires an entity to exclude asset retirement obligation (ARO) liabilities from an asset group and to exclude estimated future cash outflows associated with ARO liabilities from both the recoverability test (Step 2) and measurement of an impairment (Step 3) (refer to section 2.3.2.8 for further discussion on ARO liabilities).

ASC 842 characterizes operating lease liabilities (i.e., the lessee's obligation to make lease payments, measured on a discounted basis) as operating liabilities. In the Basis for Conclusions (BC 264) of ASU 2016-02, the FASB noted that while both operating and finance lease liabilities are financial liabilities, finance lease liabilities are the equivalent of debt, and operating lease liabilities are operating in nature and not "debt like."

Therefore, we generally believe it would be most appropriate to exclude finance lease liabilities from an asset group when testing whether the asset group is recoverable and determining the fair value of the asset group (see section 2.3.1.1 for additional discussion on including debt in an asset group). In contrast, because operating lease liabilities may be viewed as having attributes of finance liabilities as well as operating liabilities, we believe it is acceptable for a lessee to either include or exclude operating lease liabilities from an asset group when testing whether the carrying amount of an asset group is recoverable.

A lessee should apply its approach (i.e., include or exclude operating or finance lease liabilities) consistently for each respective type of lease when performing the recoverability test (Step 2) and measuring an impairment (Step 3) (refer to section 2.7.2 for guidance on measurement of an impairment loss).

In some cases, including lease liabilities in an asset group may result in the long-lived asset (asset group) having a zero or negative carrying amount. For example, for an operating lease, this may occur if a lessee receives lease incentives or has back-loaded lease payments, both of which would result in reductions to the lessee's ROU assets. In these cases, a lessee is still required to test whether the carrying amount of the asset group is recoverable and, if not recoverable, measure the asset group for impairment.

Determining which future cash outflows for lease payments should be included in the Step 2 recoverability test

A lessee that excludes lease liabilities from its asset group should exclude future cash lease payments (i.e., fixed, in-substance fixed and variable payments based on an index or rate) in the undiscounted future cash flows.

Consistent with the guidance in ASC 360-10 for debt (as discussed in section 2.3.1.1, *Debt in asset groups*), if a lessee includes finance lease liabilities in its asset group, only the principal component of future lease payments would be included as an outflow in the undiscounted future cash flows used to test recoverability of the asset group. That is, the lessee would include the future cash lease payments for the lease, excluding the component that represents the accretion of the lease liability.

ASC 360-10 does not specifically address how future cash outflows for operating lease payments should be considered in the recoverability test. The FASB staff said in response to a technical inquiry that if a lessee includes an operating lease liability as part of the carrying amount of the asset group, only the principal component of future lease payments would be included as an outflow in the undiscounted future cash flows used to test recoverability of the asset group. That is, the lessee would include the future cash lease payments for the lease, excluding the component that effectively represents the accretion of the lease liability (even though interest expense is not recognized separately for an operating lease). As a result, we believe a lessee's decision to include or exclude operating lease liabilities from an asset group generally should not affect the outcome of its recoverability test (refer to Illustration 2-13).

In summary, if a lessee includes operating or finance lease liabilities in its asset group, it should include only the principal component of future cash lease payments in the undiscounted future cash flows. If it excludes operating or finance lease liabilities from its asset group, it should exclude future cash lease payments (i.e., fixed, in-substance fixed and variable payments based on an index or rate) for the lease.

ASC 842 requires lessees to exclude certain variable lease payments from lease payments and, therefore, from the measurement of a lessee's lease liabilities. Because these payments do not reduce a lessee's lease liability, we believe the variable payments a lessee expects to make should be included in a lessee's estimate of undiscounted cash flows in the recoverability test (Step 2), regardless of whether the lessee includes or excludes operating or finance lease liabilities from the asset group. How these payments are included in the lessee's estimate of future cash flows will depend on the cash flow estimation approach (e.g., probability-weighted, best estimate) it uses. We also believe such variable lease payments should be included when determining the fair value in Step 3 if the lessee uses a discounted cash flow approach.

As a reminder, a lessee uses its own assumptions to develop estimates of future cash flows in Step 2. This differs from the approach in Step 3, where the lessee measures fair value of the asset group based on market participant assumptions. Refer to section 2.4.2 for further discussion.

Illustration 2-13: Recoverability test for an asset group that is held and used

On 1 January 20X1, a retailer (Lessee) leases space from the owner of a shopping center (Lessor) for 10 years. Under the terms of the agreement, Lessee agrees to pay fixed payments payable on 31 December of each year starting at $10,000 and increasing 2% each year.

Assume the lease is classified as an operating lease, and Lessee's incremental borrowing rate is 4%. Lessee determines that the appropriate level at which to group assets to test for and measure impairment of long-lived assets is at the store level.

On 1 January 20X4, Lessee identifies a change in circumstances that indicates the carrying amount of the asset group may not be recoverable and performs a recoverability test. On this date, assume that the carrying amount of the asset group, excluding the operating lease liability, is $500,000 and the carrying amount of the operating lease liability is $67,436 (calculation not shown). Also, assume that the cash flow estimation period is seven years and that the undiscounted future expected cash flows per year, excluding lease payments, are $75,000 per year.

Scenario 1

Lessee excludes the operating lease liability from the asset group when determining the carrying amount of the asset group and, therefore, excludes the cash outflows for lease payments in determining the undiscounted future expected cash flows of the asset group.

Year	Undiscounted future expected cash flows (before lease payments)	Total
1	$ 75,000	$ 75,000
2	$ 75,000	$ 75,000
3	$ 75,000	$ 75,000
4	$ 75,000	$ 75,000
5	$ 75,000	$ 75,000
6	$ 75,000	$ 75,000
7	$ 75,000	$ 75,000
	$ 525,000	$ 525,000

Carrying amount of asset group (excluding operating lease liability)	$ 500,000
Total undiscounted future expected cash flows	$ 525,000
Excess	$ 25,000
Recoverable? (Yes or No)	Yes

Scenario 2

Lessee includes the operating lease liability in the asset group when determining the carrying amount of the asset group and, therefore, includes the cash outflows for the principal portion of the lease payments in determining the undiscounted future expected cash flows of the asset group.

Year	Undiscounted future expected cash flows (before lease payments)	Lease payments	Add back portion related to accreted interest	Total undiscounted future expected cash flows
1	$ 75,000	(10,612)	2,697	$ 67,085
2	$ 75,000	(10,824)	2,381	$ 66,557
3	$ 75,000	(11,041)	2,043	$ 66,002
4	$ 75,000	(11,262)	1,683	$ 65,421
5	$ 75,000	(11,487)	1,300	$ 64,813
6	$ 75,000	(11,717)	893	$ 64,176
7	$ 75,000	(11,950)	460	$ 63,510
	$ 525,000	(78,893)	11,457	$ 457,564

Carrying amount of asset group (excluding operating lease liability)	$ 500,000
Carrying amount of operating lease liability	(67,436)
Carrying amount of asset group (including operating lease liability)	$ 432,564
Total undiscounted future expected cash flows	$ 457,564
Excess	$ 25,000
Recoverable? (Yes or No)	Yes

As shown in Scenario 2, including the operating lease liability in the asset group results in the same outcome as the recoverability test in Scenario 1. This is because by excluding accreted interest from the undiscounted future cash flows both the carrying amount of the asset group and the undiscounted future cash flows are reduced by the existing discounted lease obligation (i.e., $67,436).

2.7.2 Right-of-use assets — measuring an impairment (Step 3) (updated August 2021)

If the undiscounted cash flows used in the recoverability test are less than the carrying amount of the long-lived asset (asset group), an entity is required to determine the fair value of the long-lived asset (asset group) and recognize an impairment loss when the carrying amount of the long-lived asset (asset group) exceeds its fair value.

We believe that if a lessee excludes operating or finance lease liabilities from the asset group when performing the recoverability test, it also should exclude operating or finance lease liabilities from the asset group when measuring the group's fair value. Alternatively, if a lessee includes operating or finance lease liabilities in the asset group when performing the recoverability test, it also should include operating or finance lease liabilities in the asset group when determining the group's fair value.

Regardless of which approach a lessee chooses, we generally do not expect significant differences in the measurement of an impairment loss because we would expect a lessee's estimate of the fair value of the asset group to appropriately reflect whether the asset group includes or excludes operating or finance lease liabilities. For example, consistent with the guidance in section 2.3.2.8 for AROs, if a lessee excludes operating or finance lease liabilities from the carrying amount of an asset group but the fair value of the asset group is based on a quoted market price that considers the lessee's obligation to make lease

payments, the quoted market price should be increased by the fair value of the operating or finance lease liabilities. Alternatively, if a lessee includes operating or finance lease liabilities in the carrying amount of an asset group but the fair value of the asset group is based on a quoted market price that does not consider the lessee's obligation to make lease payments, the quoted market price should be decreased by the fair value of the operating or finance lease liabilities.

If the fair value of the asset group is determined based on discounted cash flows, the market participant cash flows should be adjusted to align with an entity's decision to include or exclude operating or finance lease liabilities in the carrying amount of the asset group. If the carrying amount of the asset group includes operating or finance lease liabilities, the market participant discounted cash flows used to estimate fair value should include both principal and interest payments, unlike the cash flows used in the recoverability test, which, as discussed above, exclude the component of the operating or finance lease payments that represents the accretion of the lease liability.

While we may not expect including or excluding the lease liability to cause significant differences in the measurement of impairments, measurement differences could exist in some circumstances (e.g., due to decreases in the fair value of the lease liability relative to its carrying amount).

As a reminder, an impairment loss for an asset group reduces only the carrying amounts of long-lived assets of the group (including lease-related ROU assets). The loss must be allocated to the long-lived assets of the group on a pro rata basis using the relative carrying amounts of those assets, except that the loss allocated to an individual long-lived asset of the group must not reduce the carrying amount of that asset below its fair value whenever the fair value is determinable without undue cost and effort.

ASC 360-10 prohibits the subsequent reversal of an impairment loss for an asset held and used (refer to section 2.6 for further discussion of the new cost basis).

Illustration 2-14: Measurement of impairment for an asset group that is held and used

On 1 January 20X2, Lessee enters into a five-year lease of an asset. Lease payments are fixed at $10,000 per year due on 31 December of each year. The lease is classified as an operating lease, and Lessee's incremental borrowing rate is 5%. Assume that Lessee has no other assets or liabilities that should be grouped with the operating lease ROU asset and liability for purpose of testing for impairment.

On 1 January 20X4, Lessee identifies a change in circumstances that indicates the carrying amount of the ROU asset ($27,232) may not be recoverable and performs a recoverability test. Lessee determines that the ROU asset is not recoverable (i.e., the carrying amount of the ROU asset is greater than the related entity-specific undiscounted cash flows) and, therefore, needs to determine whether the carrying amount of the asset exceeds its fair value and, if so, measure and recognize an impairment loss. Lessee determines that the fair value of the ROU asset is $20,000, based on its estimate of the amount a market participant would be willing to pay up front in one payment for the right to use the asset for three years in its highest and best use assuming no additional lease payments would be due.

Scenario 1

Lessee's approach for determining and measuring impairment in long-lived asset groups is to exclude operating lease liabilities from the asset group.

	Carrying amount	Fair value	Measured impairment loss
ROU asset	$ 27,232	$ 20,000	
Lease liability	$ 0	$ 0	
	$ 27,232	$ 20,000	$ (7,232)

In Scenario 1, Lessee would recognize an impairment loss of $7,232, reducing the carrying amount of the ROU asset by that amount.

Scenario 2

Assume the same facts as in Scenario 1 except that Lessee's approach for determining and measuring impairment in long-lived asset groups is to include operating lease liabilities in the asset group, which results in the asset group having a carrying amount of zero. Lessee determines that the ROU asset is not recoverable because the entity-specific undiscounted cash flows are negative. Also, assume there has not been a significant change in the lessee's credit quality or interest rates since 1 January 20X2 such that the fair value of the lease liability is determined to be the same as its carrying amount (i.e., $27,232).

	Carrying amount	Fair value	Measured impairment loss
ROU asset	$ 27,232	$ 20,000	
Lease liability	$ (27,232)	$ (27,232)	
	$ 0	$ (7,232)	$ (7,232)

In Scenario 2, Lessee would recognize an impairment loss of $7,232, reducing the carrying amount of the ROU asset by that amount.

Scenario 3

Assume the same facts as Scenario 1 except that Lessee's approach for determining and measuring impairment in long-lived asset groups is to include operating lease liabilities in the asset group, which results in the asset group having a carrying amount of zero. Lessee determines that the ROU asset is not recoverable because the entity-specific undiscounted cash flows are negative. However, further assume that Lessee determines that the fair value of the lease liability is $30,000 due to a significant improvement in its credit quality since 1 January 20X2.

	Carrying amount	Fair value	Measured impairment loss
ROU asset	$ 27,232	$ 20,000	
Lease liability	$ (27,232)	$ (30,000)	
	$ 0	$ (10,000)	$ (10,000)

In Scenario 3, Lessee would recognize an impairment loss of $7,232, reducing the carrying amount of the ROU asset by that amount. Although the measured impairment loss for the asset group is $10,000, Lessee can reduce only the carrying amount of the long-lived assets in the group (i.e., the ROU asset) and cannot reduce the carrying amount of that asset below its fair value whenever the fair value is determinable without undue cost and effort.

Scenario 4

Assume the same facts as Scenario 1 except that Lessee's approach for determining and measuring impairment in long-lived asset groups is to include operating lease liabilities in the asset group, which results in the asset group having a carrying amount of zero. Lessee determines that the ROU asset is not recoverable because the entity-specific undiscounted cash flows are negative. However, further assume Lessee determines that the fair value of the lease liability is $15,000 due to a significant deterioration in its credit quality since 1 January 20X2.

	Carrying amount	Fair value	Measured impairment loss
ROU asset	$ 27,232	$ 20,000	
Lease liability	$ (27,232)	$ (15,000)	
	$ 0	$ 5,000	$ 0

In Scenario 4, Lessee would not recognize an impairment loss even though the carrying amount of the ROU asset exceeds its fair value by $7,232.

Right-of-use assets — fair value considerations

ASC 820 provides a principles-based framework for measuring fair value when US GAAP requires or permits fair value measurement and requires disclosures about the use of fair value measurements. ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

Under ASC 820, a fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Therefore, fair value is a market-based measurement and not an entity-specific measurement. It is determined based on assumptions that market participants would use in pricing the asset or liability. The exit price objective of a fair value measurement applies regardless of the reporting entity's intent and/or ability to sell the asset or transfer the liability at the measurement date.

When determining the fair value of an ROU asset, a lessee should consider what market participants would pay to lease the asset (i.e., what a market participant would pay for the ROU asset) for its highest and best use, even if that use differs from the current or intended use by the reporting entity. For example, a lessee that currently leases space for use as a grocery store may conclude that the highest and best use of the space by market participants would be to use it as a fitness center.

While the concept of highest and best use of an asset may consider its use in a different condition, the objective of a fair value measurement is to determine the price of the asset in its current form. Therefore, if no market exists for an asset in its current form, but there is a market for the transformed asset, the reporting entity should back out the costs to transform the asset (as well as any associated profit margin) to determine the fair value of the asset in its current condition. That is, a fair value measurement should consider the costs market participants would incur to recondition the asset (after acquiring the asset in its current condition) and the compensation they would expect for this effort.

A contract restriction, which does not allow the lessee to sublease the asset, does not result in a fair value of zero. Instead, a lessee must consider how a market participant would value the right to use the asset with a sublease restriction in a hypothetical sale. Refer to section 5.2.1, *Restrictions on assets (before the adoption of ASU 2022-03)*, or section 5.2.1A, *Restrictions on assets (after the adoption of ASU 2022-03)*, of our FRD, ***Fair value measurement***, for further discussion on the effect on fair value of a restriction on the use of an asset.

Refer to section 6.3, *Sublessor accounting*, of our FRD, ***Lease accounting: Accounting Standards Codification 842***, **Leases**, for discussion of evaluating ROU assets for impairment when a lessee enters into a sublease and our FRD, ***Fair value measurement***, for further discussion on measuring fair value.

2.7.3 Abandonment of right-of-use assets (updated August 2021)

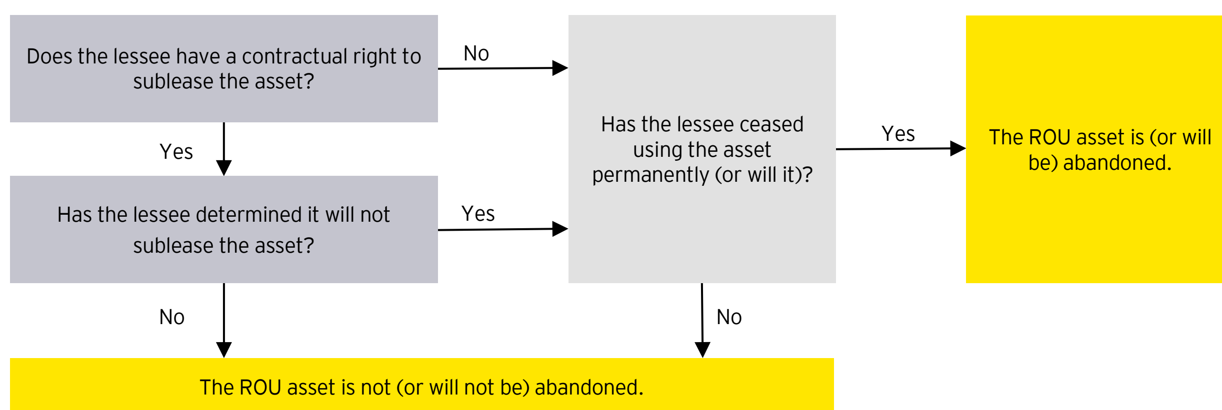
A lessee that decides to cease using a leased asset, either immediately or at a future date (e.g., in 12 months), needs to assess whether the corresponding ROU asset is or will be abandoned. A plan to abandon an ROU asset is considered an indicator of impairment under ASC 360-10 that results in the lessee evaluating the ROU asset (asset group) for recoverability and may also result in the lessee reassessing the lease term and classification under ASC 842. Evaluating a lessee's intent and ability to sublease a leased asset is an important factor in determining whether the leased asset has been or will be abandoned.

If the lessee does not have a contractual right to sublease the underlying asset and the lessee's cease use of the asset is not temporary, the ROU asset is abandoned at the date the lessee ceases using the underlying asset.

A lessee that has a contractual right to sublease the asset will need to consider the facts and circumstances of the lease and its planned remaining use of the underlying asset. If the lessee may or will sublease the underlying asset, it is not abandoning the ROU asset. As noted in ASC 842-10-15-17, economic benefits from using an asset include subleasing the asset. An entity that may or will sublease an asset (it will not otherwise use) can obtain those economic benefits; therefore, it has not abandoned (or will not abandon) the ROU asset. However, a decision to sublease the underlying asset still may be an indicator of impairment or indicate a change in the asset grouping.

A lessee that has ceased use of the leased asset and will not sublease it or use it for other purposes (e.g., storage) generally has abandoned the asset. However, if the lessee does not currently plan to sublease or otherwise use the asset but may sublease it in the future (e.g., a lessee may wait to make final decisions until existing economic conditions change or use its right to not sublease as a negotiating tactic when attempting to terminate a lease early), the ROU asset is not or will not be abandoned because the lessee has not yet decided that it will not sublease or otherwise use the leased asset.

The following flowchart summarizes considerations for determining whether an ROU asset is abandoned (or will be):



Accounting for an abandonment

If a lessee determines that it has abandoned an ROU asset or will abandon it at a future date (e.g., in 12 months), it reassesses its lease term if any of the conditions in ASC 842-10-35-1 exist (e.g., if the lessee is no longer reasonably certain to exercise a renewal option on the asset it has decided to abandon). If the lease term changes, the lessee also reassesses the lease classification. The existence of an impairment indicator alone does not result in reassessment of the lease term and classification. Refer to section 2.3.6, *Reassessment of the lease term and purchase options*, of our FRD, ***Lease accounting: Accounting Standards Codification 842,* Leases**, for further guidance.

Under ASC 360-10, a long-lived asset to be disposed of in a manner other than a sale (e.g., abandonment) is considered held and used until the long-lived asset ceases to be used. Because a decision to abandon a long-lived asset before the end of the lease term is akin to a decision to dispose of a long-lived asset before the initially intended date, a decision to abandon the asset is viewed as an indicator of impairment for a held and used long-lived asset. Therefore, if a lessee decides to abandon an ROU asset, the lessee should test whether the carrying amount of the ROU asset (asset group) is recoverable before abandoning it and, if it is not recoverable, measure it for impairment consistent with the discussion in sections 2.7.1, *Right-of-use assets – test for recoverability (Step 2)*, and 2.7.2, *Right-of-use assets – measure an impairment (Step 3).*

Prior to assessing impairment, a lessee that abandons or decides to abandon at a future date (e.g., in 12 months) an ROU asset that is part of a larger asset group should first reassess whether its grouping of long-lived assets continues to be appropriate. For example, a functionally independent asset that is abandoned (e.g., a building) may no longer be part of an existing asset group. Refer to section 2.3.1, *Grouping long-lived assets to be held and used*, and section 3.1, *Long-lived assets to be abandoned*, for further discussion of grouping of long-lived assets and abandonment of assets, respectively.

Regardless of whether an ROU asset is impaired, a lessee that commits to a plan to abandon an ROU asset in the future (e.g., in 12 months) but before the end of the lease term should update its estimate of the useful life of the ROU asset. This is consistent with the views expressed by the SEC staff at the 2020 AICPA Conference on Current SEC and PCAOB Developments.[1] The SEC staff discussed a consultation involving a registrant that identified leases for abandonment but expected there to be an extended period of time between the identification of the leases and the abandonment date. After identifying the specific leases that would be abandoned, the registrant did not change the asset group for which it assessed impairment, and it did not recognize an impairment. In this case, the SEC staff did not object to the registrant's conclusion to reevaluate the economic life of the ROU assets subject to abandonment and amortize those assets ratably over the period between its identification of leases for abandonment and the actual abandonment date.

The evaluation of whether a lessee has committed to a plan to abandon an ROU asset in the future is based on the facts and circumstances. If the lessee is ceasing to use an asset temporarily (e.g., a lessee plans to vacate a leased office building for one year as part of a restructuring but intends to reoccupy that facility), the temporary abandonment would not result in a reassessment of the useful life of the related ROU asset.

If no impairment is recorded for an operating lease but the useful life is shortened, we believe a lessee would follow the guidance in section 4.2.5.4, *Accounting for an operating lease after an impairment of a right-of-use asset (single lease cost)*, of our FRD, ***Lease accounting: Accounting Standards Codification 842,* Leases**, for operating leases to subsequently account for the ROU asset and lease liability and to determine its single lease cost after estimating the useful life of the ROU asset. If no impairment is recorded for a finance lease but the useful life is shortened, we believe a lessee would follow the guidance in section 4.3.4.4, *Accounting for a finance lease after an impairment of an ROU asset*, of our FRD, ***Lease accounting: Accounting Standards Codification 842,* Leases**, to subsequently account for the ROU asset after updating its estimate of the useful life of the ROU asset.

If an impairment is recorded, the lessee measures the ROU asset at its carrying amount immediately after the impairment and follows the guidance in section 4.2.5.4, *Accounting for an operating lease after an impairment of a right-of-use asset (single lease cost),* of our FRD, ***Lease accounting: Accounting Standards Codification 842,* Leases**, for operating leases to subsequently account for the ROU asset and lease liability and to determine its single lease cost, and section 4.3.4.4, *Accounting for a finance lease after an impairment of an ROU asset*, for finance leases, to subsequently account for the ROU asset.

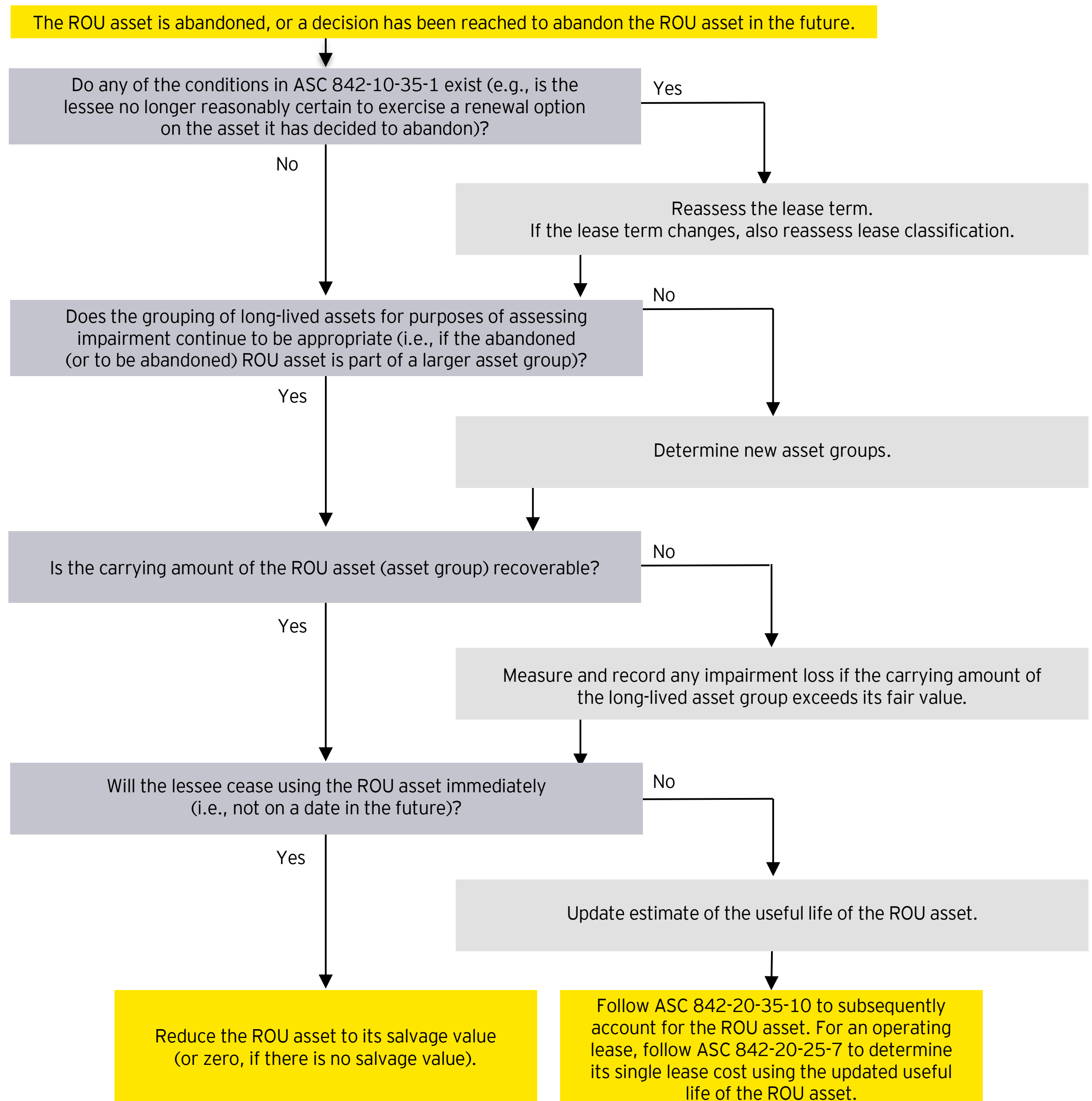
Absent any modification to a finance lease, there is no change in how the lessee accounts for the finance lease liability throughout the remaining lease term.

An ROU asset that has been abandoned should be reduced to its salvage value (or zero, if there is no salvage value) as of its cease-use date. The salvage value of an ROU asset will often be de minimis.

---

[1] Speech by Geoff Griffin, 7 December 2020. Refer to the SEC website at **https://www.sec.gov/news/speech/griffin-remarks-aicpa-2020**.

The following flowchart summarizes the accounting considerations for a lessee that abandons an ROU asset or decides to abandon it at a future date (e.g., in 12 months). The flowchart assumes that the lessee has appropriately considered ASC 360-10 up to the date the decision is made to abandon the asset.



Accounting when there is no abandonment

If a lessee determines that it has not abandoned an ROU asset or will not abandon it at a future date, it should reassess its lease term only if any of the conditions in ASC 842-10-35-1 exists.

Lessees that determine that an ROU asset is not abandoned (e.g., because it may be subleased) should consider whether the temporary cease use (or future plan to temporarily cease use) of the asset is an indicator of impairment in accordance with ASC 360-10. Lessees that determine that an indicator of impairment is present should perform the recoverability test for the asset (or asset group) and measure and record any impairment. In doing so, the lessee should first reassess whether its grouping of long-lived assets continues to be appropriate. If an impairment is recorded, the lessee measures the ROU asset at its carrying amount immediately after the impairment and follows the guidance in ASC 842-20-35-10 to subsequently account for the ROU asset and, for an operating lease, ASC 842-20-25-7 to determine its single lease cost.

2.8 Reporting and disclosure

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Other Presentation Matters

360-10-45-4

An impairment loss recognized for a long-lived asset (**asset group**) to be held and used shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amount of that loss.

Disclosure

360-10-50-2

All of the following information shall be disclosed in the notes to financial statements that include the period in which an **impairment** loss is recognized:

a. A description of the impaired long-lived asset (**asset group**) and the facts and circumstances leading to the impairment

b. If not separately presented on the face of the statement, the amount of the impairment loss and the caption in the income statement or the statement of activities that includes that loss

c. The method or methods for determining fair value (whether based on a quoted market price, prices for similar assets, or another valuation technique)

d. If applicable, the segment in which the impaired long-lived asset (asset group) is reported under Topic 280.

Impairment losses on long-lived assets to be held and used are required to be reflected as a permanent write-down of the cost basis of the affected assets. Accordingly, we believe it is appropriate to eliminate previously recorded depreciation on the impaired long-lived assets (i.e., accumulated depreciation). Although ASC 360-10 does not address this issue, such treatment is consistent with the FASB's reason for using fair value — deciding to continue to operate an asset is similar to a decision to buy an asset. In addition, because such assets continue to be used in operations, they should not be classified separately but should be reflected in their respective caption in the balance sheet (e.g., property, plant and equipment or intangibles).

With regard to the income statement, impairment losses related to long-lived assets (groups) to be held and used in operations are required to be reported as a component of income from continuing operations before income taxes or, for a not-for-profit entity, in income from continuing operations in the statement of activities (ASC 958-220-45-11). If an entity presents a subtotal in its income statement (e.g., income from operations or operating income), the impairment loss must be included in such subtotal.

The operations (including the impairment loss) of an asset group may subsequently be reclassified to discontinued operations if the asset group constitutes a component of an entity (or group of components) and meets the other discontinued operations criteria.

Illustration 2-15: ASC 360-10 impairment disclosure

NYM manufactures heavy machinery for the military and commercial markets. Those markets constitute NYM's two business segments for reporting under ASC 280. As a result of continuing governmental budget cutbacks, reduced demand for defense-related products and declining profit margins in the military market, during 20X0, NYM's management decided to reduce production levels for its full line of military products.

NYM determined that the long-lived assets of the military division might have been impaired because of the reduction in the military production rate, projections of declining profit margins and the uncertainty of continuing government procurement. Accordingly, NYM estimated the undiscounted future cash flows to be generated by the military division at $90 million, which was less than the carrying amount of the division's long-lived assets of $100 million. NYM then estimated the fair value of those assets at $70 million using a discounted cash flow approach as a measure of fair value. This resulted in a $30 million write-down of the assets, which was reflected as a separate line item in the income statement.

Given these circumstances, the following disclosure would be appropriate:

During 20XO, NYM decided to significantly reduce the size of its military business in the future. Accordingly, NYM evaluated the ongoing value of the plant and equipment associated with its military division. Based on this evaluation, NYM determined that long-lived assets with a carrying amount of $100 million were no longer recoverable and were in fact impaired and wrote them down to their estimated fair value of $70 million. Fair value was based on expected future cash flows using Level 3 inputs under ASC 820. The cash flows are those expected to be generated by the market participants, discounted at the risk-free rate of interest. Because of deteriorating market conditions (i.e., rising interest rates and less marketplace demand), it is reasonably possible that the estimate of expected future cash flows may change in the near term resulting in the need to adjust our determination of fair value.

If an entity has more than one asset that has been measured at fair value on a nonrecurring basis, such as goodwill or indefinite lived intangibles, the disclosure generally would be provided in tabular format such as in the example in ASC 820-10-55-100.

In addition to the disclosures required by ASC 360-10, ASC 820 requires disclosures for assets and liabilities measured at fair value on a nonrecurring basis (e.g., impaired assets) in the period in which the remeasurement at fair value occurs.

2.8.1 Early warning disclosures

There are no requirements for early warning disclosures in circumstances where an impairment loss has not been recorded in the current period but might be triggered in the near future (e.g., where impairment indicators are present, but undiscounted cash flows slightly exceed the carrying amount of the assets). However, ASC 275-10-50-13 notes that the risk and uncertainty disclosures below are applicable to long-lived assets whose value may become impaired in the near term (i.e., the estimates of future cash flows used in the recoverability test or to determine fair value may be particularly sensitive to change).

Excerpt from Accounting Standards Codification

Risks and Uncertainties — Overall

Disclosure

275-10-50-8

Disclosure regarding an estimate shall be made when known information available before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25) indicates that both of the following criteria are met:

a. It is at least reasonably possible that the estimate of the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events.

b. The effect of the change would be material to the financial statements.

The below illustrates the application of ASC 275 to a potential long-lived asset impairment:

Illustration 2-16: Early warning disclosure

Assume that events and circumstances indicate that an asset group with a carrying amount of $20 million might be impaired. Management estimates the undiscounted cash flows to be generated by the asset group at $20.4 million and in accordance with ASC 360-10, the entity does not record an impairment loss. If the entity believes it is reasonably possible that its estimate of cash flows may be reduced in the near term, even by as little as $500,000, that change may then require the entity to record an impairment loss based on the difference between the $20 million carrying amount and the fair value of the assets. If the potential loss were material to the financial statements, management would be required to make the following disclosures prescribed by ASC 275:

- A description of the nature of the uncertainty.
- An indication that it is at least reasonably possible that a change in estimate will occur in the near future.

In addition, entities are encouraged, but not required, to disclose the factors that cause the estimate to be sensitive to change.

In the fact pattern outlined above, the following disclosure would be appropriate:

In accordance with ASC 360-10, the Entity records impairment losses on long-lived assets used in operations when events and circumstances indicate that long-lived assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. During 20X1, events and circumstances indicated that $20 million of assets of the XYZ Division might be impaired. However, the Entity's estimate of undiscounted cash flows indicated that such carrying amounts were expected to be recovered. Nonetheless, it is reasonably possible that the estimate of undiscounted cash flows may change in the near term resulting in the need to write down those assets to fair value.

ASC 275 also states that disclosure of the factors that cause the estimate to be sensitive to change is encouraged but not required. Accordingly, the following could have been added to the last sentence of the above disclosure and we expect that most entities would want to do so.

The Entity's estimate of cash flows might change because of the losses being incurred by the XYZ Division due to excess capacity in the industry.

3 Long-lived assets to be disposed of other than by sale

This section discusses the accounting for long-lived assets that are disposed of in a manner other than by sale. For example, these disposal transactions include:

- Abandonments.
- An exchange measured based on the recorded amount of the nonmonetary asset relinquished.
- Distributions to owners in a spin-off, including a pro rata distribution to owners of shares of a subsidiary or other investee entity that has been or is being consolidated or that has been or is being accounted for under the equity method.
- Other distributions to owners in the form of reorganization or liquidation or in a plan that is in substance a rescission of a prior business combination covered by ASC 845.
- A contribution (i.e., a gift) to another entity covered by ASC 720-25

Unlike the rules applicable to long-lived assets (disposal groups) that are to be disposed of by sale, long-lived assets (disposal groups) to be disposed of other than by sale are considered held and used until the long-lived asset is disposed (i.e., when it ceases to be used, for abandonments, or when it is exchanged or distributed).

3.1 Long-lived assets to be abandoned

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Other Presentation Matters

360-10-45-15

A long-lived asset to be disposed of other than by sale (for example, by abandonment, in an exchange measured based on the recorded amount of the nonmonetary asset relinquished, or in a distribution to owners in a spinoff) shall continue to be classified as held and used until it is disposed of. The guidance on long-lived assets to be held and used in Sections 360-10-35, 360-10-45, and 360-10-50 shall apply while the asset is classified as held and used. If a long-lived asset is to be abandoned or distributed to owners in a spinoff together with other assets (and liabilities) as a group and that disposal group meets the conditions in paragraphs 205-20-45-1A through 45-1C to be reported in discontinued operations, paragraphs 205-20-45-3 through 45-5 shall apply to the disposal group at the date it is disposed of.

Subsequent Measurement

360-10-35-47

For purposes of this Subtopic, a long-lived asset to be abandoned is disposed of when it ceases to be used. If an entity commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates shall be revised in accordance with paragraphs 250-10-45-17 through 45-20 and 250-10-50-4 to reflect the use of the asset over its shortened useful life (see paragraph 360-10-35-22).

360-10-35-48

Because the continued use of a long-lived asset demonstrates the presence of service potential, only in unusual situations would the fair value of a long-lived asset to be abandoned be zero while it is being used. When a long-lived asset ceases to be used, the carrying amount of the asset should equal its salvage value, if any. The salvage value of the asset shall not be reduced to an amount less than zero

360-10-35-49

A long-lived asset that has been temporarily idled shall not be accounted for as if abandoned.

A long-lived asset (group) that is to be abandoned is considered disposed of when it ceases to be used. Thus, an entity that is using a long-lived asset (group) in operations that it intends to abandon is prohibited from classifying the long-lived asset (group) as held for sale.

Instead, the entity is required to evaluate the long-lived asset (group) as held and used and should determine whether its depreciation estimates must be revised (in accordance with the change in estimate guidance in ASC 250) to reflect a useful life that is shorter than initially expected and a salvage value consistent with the intention to abandon. Because a decision to abandon a long-lived asset (group) is akin to a decision to dispose of a long-lived asset (group) before the initially intended date, it generally would be viewed as an indicator of impairment for a held and used long-lived asset.

The guidance in ASC 360-10 notes that because the continued use of the long-lived asset demonstrates the presence of service potential, only in unusual situations would the fair value of a long-lived asset to be abandoned be zero while it is being used. We believe that this circumstance would not be as unusual as the FASB has indicated, because long-lived assets (groups) could generate negative cash flows (i.e., cash inflows are less than cash outflows) while being used in operations. Given to the FASB's view, entities that write down the value of long-lived assets (groups) to zero should document their reasons and maintain contemporaneous documentation of the determination of fair value.

Illustration 3-1: Long-lived asset to be abandoned

On 30 June 20X2, NYR Manufacturing commits to a plan to abandon an airplane factory that is currently being used in operations. Due to the location and nature of the factory, it is not expected the factory could reasonably generate sales proceeds. NYR Manufacturing's plan is to continue using the factory until 30 June 20X3, at which time the factory will be abandoned. The factory, acquired 14 years ago for $50 million, was initially assigned a twenty-year estimated useful life and $1 million in salvage value was estimated. (For simplicity purposes, the value of the land is not assumed to be material.) As a result of the commitment to a plan to abandon the factory, NYR Manufacturing has reduced the factory's estimated remaining useful life from six years to one year and NYR Manufacturing will account for the change in estimate in accordance with ASC 250. Thus, under ASC 250, the factory's carrying value of $15.7 million at 30 June 20X2 will be depreciated over the next year, such that its carrying value will equal $1 million (the estimated amount of salvage value) on 30 June 20X3, the date it ceases to be used.

However, because the decision to retire the factory early is considered an impairment indicator, NYR Manufacturing must perform a recoverability test on 30 June 20X2 to determine whether the $15.7 million carrying value is recoverable over the next year. Because the factory will be abandoned (and minor portions simply sold for scrap), the factory does not meet the held for sale provisions in ASC 360-10. If the recoverability test indicates that the fair value is not recoverable (e.g., estimated undiscounted cash flows are only $2.2 million), NYR Manufacturing must determine the fair value of the factory. If the fair value is determined to be $2 million, NYR Manufacturing would record an impairment charge of $13.7 million on 30 June 20X2 and would record $1 million as depreciation expense (the new carrying amount of $2 million, less $1 million in scrap) over the next year. If the factory had been recoverable, an impairment loss could not be recorded.

It may be difficult to differentiate between a long-lived asset (group) that is to be abandoned and a long-lived asset (disposal group) to be sold, particularly if the long-lived asset (group) to be abandoned has a salvage value when it ceases to be used. As a result, entities will have to use judgment in making the determination as to whether it should subject such long-lived asset to the held for sale criteria. In making the determination, the entity must consider whether such long-lived asset meets the held for sale criteria. Refer to section 2.7.3 for further discussion on abandonment of a lessee's ROU asset in an operating lease after the adoption of ASC 842.

3.2 Long-lived asset to be exchanged or to be distributed to owners in a spin-off

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Derecognition

360-10-40-4

For purposes of this Subtopic, a long-lived asset to be disposed of in an exchange measured based on the recorded amount of the nonmonetary asset relinquished or to be distributed to owners in a spinoff is disposed of when it is exchanged or distributed. If the asset (**asset group**) is tested for recoverability while it is classified as held and used, the estimates of future cash flows used in that test shall be based on the use of the asset for its remaining useful life, assuming that the disposal transaction will not occur. In such a case, an undiscounted cash flows recoverability test shall apply prior to the disposal date. In addition to any **impairment** losses required to be recognized while the asset is classified as held and used, an impairment loss, if any, shall be recognized when the asset is disposed of if the carrying amount of the asset (**disposal group**) exceeds its fair value. The provisions of this Section apply to nonmonetary exchanges that are not recorded at fair value under the provisions of Topic 845.

The following table illustrates the basis for recording certain types of spin-off and other transactions:

Transaction	**Basis for recording**
Distribution that is a rescission of a prior business combination	Recorded amount reduced for an indicated impairment of value
Nonreciprocal transfer of a nonmonetary asset to owners	Fair value, if objectively measurable subject to certain restrictions
Pro rata spin-off of a business	Recorded amount reduced for an indicated impairment of value
Non-pro rata split-off of a segment of a business in a corporate plan of reorganization	Fair value

Refer to ASC 845 and EY Accounting Manual sections N1, *Nonmonetary transactions*, and S4, *Spin-offs and split-offs*, for further discussion of spin-offs and exchanges that are measured based on the recorded amount of the nonmonetary asset relinquished.

The guidance related to spin-offs applies to the entity that is spinning off a subsidiary or group of assets and not the entity being spun off. In preparing the spun-off entity's separate financial statements, the long-lived assets would continue to be evaluated for recoverability and impairment under the held for use model unless they qualify as held for sale or are disposed of by the spun-off entity. Refer to our ***Guide to preparing carve-out financial statements*** for further considerations in preparing the spun-off entity's separate financial statements.

3.3 SEC staff views — spin-off of a subsidiary

When an entity disposes of a business in a spin-off, prior to an initial public offering, the entity may wish to reflect that disposition as a change in the reporting entity as opposed to a discontinued operation. If reflected as a change in the reporting entity, the operations of the disposed business are not reflected in the entity's financial statements. The SEC staff's view on this question is in SAB Topic 5.Z.7 below.

Excerpt from Accounting Standards Codification

Equity — Spinoffs and Reverse Spinoffs

SEC Materials

SAB Topic 5.Z.7, Accounting for the Spin-off of a Subsidiary

505-60-S99-1

The following is the text of SAB Topic 5.Z.7, Accounting for the Spin-off of a Subsidiary.

Facts: A Company disposes of a business through the distribution of a subsidiary's stock to the Company's shareholders on a pro rata basis in a transaction that is referred to as a spin-off.

Question: May the Company elect to characterize the spin-off transaction as resulting in a change in the reporting entity and restate its historical financial statements as if the Company never had an investment in the subsidiary, in the manner specified by FASB ASC Topic 250, Accounting Changes and Error Corrections?

Interpretive Response: Not ordinarily. If the Company was required to file periodic reports under the Exchange Act within one year prior to the spin-off, the staff believes the Company should reflect the disposition in conformity with FASB ASC Topic 360. This presentation most fairly and completely depicts for investors the effects of the previous and current organization of the Company. However, in limited circumstances involving the initial registration of a company under the Exchange Act or Securities Act, the staff has not objected to financial statements that retroactively reflect the reorganization of the business as a change in the reporting entity if the spin-off transaction occurs prior to effectiveness of the registration statement. This presentation may be acceptable in an initial registration if the Company and the subsidiary are in dissimilar businesses, have been managed and financed historically as if they were autonomous, have no more than incidental common facilities and costs, will be operated and financed autonomously after the spin-off, and will not have material financial commitments, guarantees, or contingent liabilities to each other after the spin-off. This exception to the prohibition against retroactive omission of the subsidiary is intended for companies that have not distributed widely financial statements that include the spun-off subsidiary. Also, dissimilarity contemplates substantially greater differences in the nature of the businesses than those that would ordinarily distinguish reportable segments as defined by FASB ASC paragraph 280-10-50-10 (Segment Reporting Topic).

Because of the limited circumstances in which the SEC staff accepts the presentation of a spin-off as a change in the reporting entity, we encourage entities to discuss their facts with the SEC staff prior to filing financial statements on that basis.

4 Long-lived assets to be disposed of by sale

4.1 Recognition

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Other Presentation Matters

360-10-45-9

A long-lived asset (disposal group) to be sold shall be classified as held for sale in the period in which all of the following criteria are met:

a. Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).

b. The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups). (See Examples 5 through 7 [paragraphs 360-10-55-37 through 55-41], which illustrate when that criterion would be met.)

c. An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.

d. The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year, except as permitted by paragraph 360-10-45-11. (See Example 8 [paragraph 360-10-55-43], which illustrates when that criterion would be met.) The term **probable** refers to a future sale that is likely to occur.

e. The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value. The price at which a long-lived asset (disposal group) is being marketed is indicative of whether the entity currently has the intent and ability to sell the asset (disposal group). A market price that is reasonable in relation to fair value indicates that the asset (disposal group) is available for immediate sale, whereas a market price in excess of fair value indicates that the asset (disposal group) is not available for immediate sale.

f. Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

360-10-45-10

If at any time the criteria in this Subsection are no longer met (except as permitted by the following paragraph), a long-lived asset (disposal group) classified as held for sale shall be reclassified as held and used in accordance with paragraph 360-10-35-44.

The FASB established detailed criteria that must be met before classifying a long-lived asset (disposal group) as held for sale. A long-lived asset (or disposal group) to be disposed of by sale should be considered held for sale in the period when all of the criteria in ASC 360-10-45-9 above for a qualifying plan of sale are met.

These criteria apply to long-lived assets or disposal groups that are intended to be sold. Long-lived assets (disposal groups) to be abandoned, exchanged (only if at recorded amount less any impairment) or distributed to owners should be considered held and used until the date of abandonment, exchange or distribution. See section 3 for further discussion of assets to be disposed of other than by sale.

The disposal group qualifies for reporting as a discontinued operation if it: (1) is a component of an entity (or group of components), (2) meets the held for sale criteria as prescribed by ASC 205-20-45-1E, it is disposed of by sale or is disposed of other than by sale (e.g., abandonment) and (3) represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Refer to our FRD, ***Discontinued operations — Accounting Standards Codification 205-20***, for further guidance on discontinued operations classified as held for sale.

4.1.1 Held for sale criteria

The following is a detailed description of each held for sale criterion, each of which must be met for a long-lived asset (disposal group) to be classified as held for sale:

a. ***Management, having the authority to approve the action, commits to a plan to sell the long-lived asset or disposal group.***

The FASB did not provide further clarification as to what it meant by a plan to sell. To support the classification as held for sale, it is recommended that such a plan be documented. Entities also should ensure that there is a commitment to a plan to sell rather than a plan to commit. That is, if management with adequate authority instructs its personnel to merely explore or assess the feasibility of selling a long-lived asset (disposal group), a plan of sale has not been committed to.

In determining whether management that commits to a plan to sell has the proper level of authority, we believe that if an entity's policies require board of directors' approval, or management elects to seek board of directors' approval, the appropriate level of authority needed to commit the entity would be that of the board of directors. If board of directors' approval is neither required nor sought, the appropriate level of authority that can approve the disposal would be at a level below the board of directors (e.g., chief executive officer).

Even if it is probable or virtually guaranteed that management with the authority to approve a plan to sell will commit to a sale, entities should not classify a long-lived asset (disposal group) as held for sale until approved.

Questions often arise as to whether a plan of sale that requires shareholder approval can be considered approved before such shareholder approval. We believe that, if an entity either elects or is required to obtain shareholder approval to dispose of a long-lived asset (group), the plan of disposal would not be committed to by management having the appropriate authority until it has been approved by the shareholders.

b. ***The asset or disposal group is available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such assets (disposal groups).***

A long-lived asset or disposal group is available for immediate sale if an entity currently has both the intent and ability to transfer the long-lived asset (disposal group) to a buyer in its present condition. Therefore, if a seller imposes a delay in the transfer of the long-lived asset or disposal group, it is possible that it is not available for immediate sale. As a result, a careful review of the reasons for the delay should be made.

The above criterion does not restrict a long-lived asset (disposal group) from being classified as held for sale while it is being used. If a long-lived asset (disposal group) is available for immediate sale, the remaining use of the long-lived asset is incidental to its recovery because its carrying amount will be recovered principally through a sale. In addition, in paragraph B72 of Basis for Conclusions of Statement of Statement No. 144, the FASB concluded that the above criterion does not require a binding agreement for a future sale as requiring such an agreement would unduly delay when a long-lived asset (disposal group) could be classified as held for sale.

ASC 360-10 does not define or provide further clarification of the terms usual or customary. However, by stating that the sale be "subject only to the terms and conditions that are usual and customary *for sales of such assets* [emphasis added]," the criterion suggests that the entity who intends to sell the long-lived asset should determine whether its terms are comparable with those of other entities that sell the long-lived asset. Therefore, the terms may not be considered usual and customary even though a particular entity has an established history of offering the same terms on the sales of its assets. For example, the criterion may not be met if an entity establishes a term of sale that allows them six months to deliver a machine after it receives a down payment from a buyer (even if this term is customary for the particular seller), when most entities deliver the same or similar machines within a month. Examples of other terms that may affect this criterion are restrictions on the timing of the transfer of the long-lived assets, requirements that a buyer provide a down payment (or an unusually significant down payment) when such down payments are not typically required or restrictions that a buyer demonstrate its credit worthiness by actions in excess of those typically required.

Examples 5-7 from ASC 360-10-55 illustrate situations in which a long-lived asset (disposal group) is both available and not available for immediate sale:

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Implementation Guidance and Illustrations

Example 5: Plan to Sell Headquarters Building

360-10-55-38

An entity commits to a plan to sell its headquarters building and has initiated actions to locate a buyer. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would or would not be met:

a. The entity intends to transfer the building to a buyer after it vacates the building. The time necessary to vacate the building is usual and customary for sales of such assets. The criterion in paragraph 360-10-45-9(b) would be met at the plan commitment date.

b. The entity will continue to use the building until construction of a new headquarters building is completed. The entity does not intend to transfer the existing building to a buyer until after construction of the new building is completed (and it vacates the existing building). The delay in the timing of the transfer of the existing building imposed by the entity (seller) demonstrates that the building is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not be met until construction of the new building is completed, even if a **firm purchase commitment** for the future transfer of the existing building is obtained earlier.

Example 6: Plan to Sell Manufacturing Facility with Backlog of Orders

360-10-55-40

An entity commits to a plan to sell a manufacturing facility and has initiated actions to locate a buyer. At the plan commitment date, there is a backlog of uncompleted customer orders. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would or would not be met:

a. The entity intends to sell the manufacturing facility with its operations. Any uncompleted customer orders at the sale date would transfer to the buyer. The transfer of uncompleted customer orders at the sale date will not affect the timing of the transfer of the facility. The criterion in paragraph 360-10-45-9(b) would be met at the plan commitment date.

b. The entity intends to sell the manufacturing facility, but without its operations. The entity does not intend to transfer the facility to a buyer until after it ceases all operations of the facility and eliminates the backlog of uncompleted customer orders. The delay in the timing of the transfer of the facility imposed by the entity (seller) demonstrates that the facility is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not be met until the operations of the facility cease, even if a firm purchase commitment for the future transfer of the facility is obtained earlier.

Example 7: Intent to Sell Acquired Real Estate Foreclosure

360-10-55-42

An entity acquires through foreclosure a real estate property that it intends to sell. The following illustrate situations in which the criterion in paragraph 360-10-45-9(b) would not be met:

a. The entity does not intend to transfer the property to a buyer until after it completes renovations to increase its sales value. The delay in the timing of the transfer of the property imposed by the entity (seller) demonstrates that the property is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not be met until the renovations are completed.

b. After the renovations are completed and the property is classified as held for sale but before a firm purchase commitment is obtained, the entity becomes aware of environmental damage requiring remediation. The entity still intends to sell the property. However, the entity does not have the ability to transfer the property to a buyer until after the remediation is completed. The delay in the timing of the transfer of the property imposed by others before a firm purchase commitment is obtained demonstrates that the property is not available for immediate sale. The criterion in paragraph 360-10-45-9(b) would not continue to be met. The property would be reclassified as held and used in accordance with paragraph 360-10-45-7.

c. ***An active program to locate a buyer and other actions required to complete the plan to sell have been initiated.***

Because ASC 360-10 does not provide further clarification regarding this criterion, entities are afforded some latitude in determining what constitutes an "active program to locate a buyer." Such actions as hiring a sales agent or deploying internal staff to market the long-lived asset for sale may demonstrate that the entity is engaged in an active program to locate a buyer.

d. ***The sale of the asset or disposal group is probable and the transfer is expected to qualify for recognition as a completed sale within one year, with several exceptions.***

The meaning of the term probable as used in the criterion above is consistent with the meaning in ASC 450-20-20 and refers to a future sale that is likely to occur.

This criterion is particularly subjective, as it will require the entity to ascertain the likelihood of the sale. To assess the probability, it may require the entity to have or acquire knowledge of the market in which the long-lived asset (disposal group) is being sold, consider its past sales experience and/or consider sales of long-lived assets (disposal groups) with similar characteristics and terms. Additionally, this criterion interacts with criterion ***e.*** below, in that a probability assessment may include considering the reasonableness of the sales price in relation to its fair value.

The following example included in ASC 360-10-55 demonstrates when this criterion is not met:

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Implementation Guidance and Illustrations

Example 8: Proposed Disposition Not Expected to Qualify as Completed Sale

360-10-55-43

This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with the criterion in paragraph 360-10-45-9(d). The following illustrates situations in which that criterion would not be met:

a. An entity that is a commercial leasing and finance company is holding for sale or lease equipment that has recently come off lease and the ultimate form of a future transaction (sale or lease) has not yet been determined.

b. An entity commits to a plan to sell a property that is in use, and the transfer of the property will be accounted for as a sale-leaseback through which the seller-lessee will retain more than a minor portion of the use of the property. The property would continue to be classified as held and used following the appropriate guidance in Sections 360-10-35, 360-10-45, and 360-10-50. If at the date of the sale-leaseback the fair value of the property is less than its undepreciated cost, a loss would be recognized immediately up to the amount of the difference between undepreciated cost and fair value in accordance with paragraphs 840-40-25-3(c) and 840-40-30-3.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2021* | Transition Guidance: 842-10-65-1

Editor's note: The content of paragraph 360-10-55-43 will change upon the adoption of ASU 2016-02, *Leases.*

This Example illustrates the classification as held for sale of a long-lived asset (disposal group) in accordance with the criterion in paragraph 360-10-45-9(d). The following illustrates situations in which that criterion would not be met:

a. An entity that is a commercial leasing and finance company is holding for sale or lease equipment that has recently come off lease and the ultimate form of a future transaction (sale or lease) has not yet been determined.

b. An entity commits to a plan to sell an asset that is in use and lease back that asset; however, the transfer of the asset will not be accounted for as a sale and leaseback transaction because the buyer-lessor does not obtain control of the asset based on the guidance in paragraphs 842-40-25-1 through 25-3. The asset would continue to be classified as held and used following the appropriate guidance in Sections 360-10-35, 360-10-45, and 360-10-50.

Because the future transaction in 360-10-55-43(a) above could be in the form of a sale or a lease, it is unlikely that an entity could deem a future sale of the asset as probable. In 360-10-55-43(b) above, the anticipated transaction will not qualify for recognition as a completed sale. The holding period in which a long-lived asset (disposal group) is to be classified as held for sale is limited to one year. In deliberating Statement No. 144, the FASB believed that a one-year period was reasonable and consistent with the guidance in APB 30 that stated, "in the usual circumstance, it would be expected that the plan of disposal would be carried out within a period of one year from the measurement date…"

To address situations in which a plan of disposal cannot be carried out within one year from the measurement date as a result of conditions beyond an entity's control, ASC 360-10 provides the following exception.

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Other Presentation Matters

360-10-45-11

Events or circumstances beyond an entity's control may extend the period required to complete the sale of a long-lived asset (disposal group) beyond one year. An exception to the one-year requirement in paragraph 360-10-45-9(d) shall apply in the following situations in which such events or circumstances arise:

a. If at the date an entity commits to a plan to sell a long-lived asset (disposal group) the entity reasonably expects that others (not a buyer) will impose conditions on the transfer of the asset (group) that will extend the period required to complete the sale and both of the following conditions are met:
    1. Actions necessary to respond to those conditions cannot be initiated until after a **firm purchase commitment** is obtained.
    2. A firm purchase commitment is probable within one year. (See Example 9 [paragraph 360-10-55-44], which illustrates that situation.)

b. If an entity obtains a firm purchase commitment and, as a result, a buyer or others unexpectedly impose conditions on the transfer of a long-lived asset (disposal group) previously classified as held for sale that will extend the period required to complete the sale and both of the following conditions are met:
    1. Actions necessary to respond to the conditions have been or will be timely initiated.
    2. A favorable resolution of the delaying factors is expected. (See Example 10 [paragraph 360-10-55-46], which illustrates that situation.)

c. If during the initial one-year period, circumstances arise that previously were considered unlikely and, as a result, a long-lived asset (disposal group) previously classified as held for sale is not sold by the end of that period and all of the following conditions are met:
    1. During the initial one-year period the entity initiated actions necessary to respond to the change in circumstances.
    2. The asset (group) is being actively marketed at a price that is reasonable given the change in circumstances.
    3. The criteria in paragraph 360-10-45-9 are met. (See Example 11 [paragraph 360-10-55-48], which illustrates that situation.)

360-10-45-12

A long-lived asset (disposal group) that is newly acquired and that will be sold rather than held and used shall be classified as held for sale at the acquisition date only if the one-year requirement in paragraph 360-10-45-9 **(d)** is met (except as permitted by the preceding paragraph) and any other criteria in paragraph 360-10-45-9 that are not met at that date are probable of being met within a short period following the acquisition (usually within three months).

A delay in the period required to complete a sale does not preclude a long-lived asset or disposal group from being classified as held for sale if the delay is caused by events or circumstances beyond an entity's control and there is sufficient evidence that the entity remains committed to a qualifying plan to sell the long-lived asset or disposal group. Exceptions to the one-year requirement, as described above, are permitted. These exceptions are highlighted in several examples from ASC 360-10-55 as presented below.

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Implementation Guidance and Illustrations

Example 9: Regulatory Approval of Sale Required

360-10-55-45

An entity in the utility industry commits to a plan to sell a disposal group that represents a significant portion of its regulated operations. The sale will require regulatory approval, which could extend the period required to complete the sale beyond one year. Actions necessary to obtain that approval cannot be initiated until after a buyer is known and a firm purchase commitment is obtained. However, a firm purchase commitment is probable within one year. In that situation, the conditions in paragraph 360-10-45-11(a) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met.

Example 10: Environmental Damage Identified During Buyer's Inspection

360-10-55-47

An entity commits to a plan to sell a manufacturing facility in its present condition and classifies the facility as held for sale at that date. After a firm purchase commitment is obtained, the buyer's inspection of the property identifies environmental damage not previously known to exist. The entity is required by the buyer to remediate the damage, which will extend the period required to complete the sale beyond one year. However, the entity has initiated actions to remediate the damage, and satisfactory remediation of the damage is probable. In that situation, the conditions in paragraph 360-10-45-11(b) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met.

Example 11: Deterioration of Market Conditions

360-10-55-49

An entity commits to a plan to sell a long-lived asset and classifies the asset as held for sale at that date. The following illustrates situations in which the conditions for an exception to the criterion in paragraph 360-10-45-9(d) would or would not be met:

a. During the initial one-year period, the market conditions that existed at the date the asset was classified initially as held for sale deteriorate and, as a result, the asset is not sold by the end of that period. During that period, the entity actively solicited but did not receive any reasonable offers to purchase the asset and, in response, reduced the price. The asset continues to be actively marketed at a price that is reasonable given the change in market conditions, and the criteria in paragraph 360-10-45-9 are met. In that situation, the conditions in paragraph 360-10-45-11(c) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would be met. At the end of the initial one-year period, the asset would continue to be classified as held for sale.

b. During the following one-year period, market conditions deteriorate further, and the asset is not sold by the end of that period. The entity believes that the market conditions will improve and has not further reduced the price of the asset. The asset continues to be held for sale, but at a price in excess of its current fair value. In that situation, the absence of a price reduction demonstrates that the asset is not available for immediate sale as required by the criterion in paragraph 360-10-45-9(b). In addition, the criterion in paragraph 360-10-45-9(e) requires that an asset be marketed at a price that is reasonable in relation to its current fair value. Therefore, the conditions in paragraph 360-10-45-11(c) for an exception to the one-year requirement in paragraph 360-10-45-9(d) would not be met. The asset would be reclassified as held and used in accordance with paragraph 360-10-35-44.

e. The long-lived asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value.

This criterion seeks to demonstrate whether an entity currently has the intent to sell a long-lived asset or disposal group. The FASB believes that the price at which a long-lived asset (disposal group) is being marketed is indicative of whether the entity currently has the intent and ability to sell the asset (disposal group). A market price that is reasonable in relation to its fair value indicates that the asset (disposal group) is available for immediate sale, whereas a market price in excess of fair value indicates that the long-lived asset (disposal group) is not available for immediate sale as the entity may be "testing the waters" to see what, if any, interest there is in the market to buy the long-lived asset (disposal group).

Because the sales price must be reasonable in relation to its fair value, if an entity has established a price that is significantly greater than fair value and will sell if anyone will offer that price, the long-lived asset (disposal group) would not qualify as held for sale.

In addition, entities should determine whether the long-lived asset (disposal group) is being actively marketed. For example, if the entity intends to market the long-lived asset through a broker but has not actively begun searching for a broker, the long-lived asset is not being actively marketed.

f. Actions necessary to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

ASC 360 does not specify what type of actions would indicate that significant changes will be made to a plan or that a plan will be withdrawn. We believe that if the long-lived asset (disposal group) is available for sale and meets the other held for sale criteria, it is likely that this criterion will be met. However, before concluding this criterion is met, an entity should consider whether it has a history of making significant changes to the plan of sale or has a history of withdrawing sales of similar long-lived assets.

The intent of this criterion is to prevent entities that routinely withdraw from plans to sell from reclassifying and remeasuring their long-lived assets (disposal group) from held for sale to held and used. Further, this criterion ensures that entities have a sufficiently robust plan of sale at the commitment date; otherwise, one may conclude that significant changes to the plan are likely to occur because the plan is not well-developed.

4.1.2 Held for sale criteria met after the balance sheet date but before issuance of financial statements

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Other Presentation Matters

360-10-45-13

If the criteria in paragraph 360-10-45-9 are met after the balance sheet date but before the financial statements are issued or are available to be issued (as discussed in Section 855-10-25), a long-lived asset shall continue to be classified as held and used in those financial statements when issued or when available to be issued. In addition, information required by paragraph 205-20-50-1(a) shall be disclosed in the notes to financial statements. If the asset (asset group) is tested for recoverability (on a held-and-used basis) as of the balance sheet date, the estimates of future cash flows used in that test shall consider the likelihood of possible outcomes that existed at the balance sheet date, including the assessment of the likelihood of the future sale of the asset. That assessment made as of the balance sheet date shall not be revised for a decision to sell the asset after the balance sheet date. Because it is difficult to separate the benefit of hindsight when assessing conditions that existed at a prior date, it is important that judgments about those conditions, the need to test an asset for recoverability, and the application of a recoverability test be made and documented together with supporting evidence on a timely basis. An impairment loss, if any, to be recognized shall be measured as the amount by which the carrying amount of the asset (asset group) exceeds its fair value at the balance sheet date.

If the held for sale criteria are met after the balance sheet date but before the financial statements are issued or available to be issued, the related long-lived asset (disposal group) would continue to be classified as held and used in the financial statements. However, the required disclosures related to a long-lived asset (disposal group) that is held for sale (as discussed later in this section) must be made in the notes to the financial statements.

Further, if a long-lived asset or disposal group is tested for impairment as of the balance sheet date, the estimates of future cash flows used in that test should be based on the conditions that existed at the balance sheet date, including any assessment made at the balance sheet date as to the likelihood and timing of sale. The assessment at the balance sheet date would not be revised solely because of a subsequent decision to sell the assets or other conditions that arise after the balance sheet date (e.g., loss of a significant customer). See section 2.3.2.6 for an illustration of an entity that performs a recoverability test when it has committed to sell a long-lived asset after the balance sheet date, but before the issuance of the financial statements.

4.1.3 Grouping assets to be disposed of by sale

Assets not covered by ASC 360-10 and/or certain liabilities may be grouped with a long-lived asset(s) to be sold if the group constitutes a disposal group. A disposal group represents long-lived assets and other assets (if any) to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction. Examples of such liabilities include, but are not limited to, legal obligations that transfer with a long-lived asset, such as certain environmental obligations, asset retirement obligations recorded under ASC 410-20 and obligations that for business reasons a potential buyer would prefer to settle when assumed as part of a group, such as warranty obligations that relate to an acquired customer base or transferable debt at a rate below the current market rate.

Based on the above definition of a disposal group, it is not likely that many liabilities will be included in a disposal group because it is not common to transfer liabilities in a sale of a long-lived asset (e.g., an entity does not typically transfer its mortgage to a buyer when selling a building). However, if an entity is selling

its controlling interest (i.e., common stock) in a consolidated subsidiary, the liabilities of that subsidiary are more likely to be included in the disposal group (unless the liabilities are required to be settled before the transaction or are excluded from the transaction).

Further, the definition of a disposal group requires that a disposal group be sold in a single transaction. Therefore, separate disposal groups would be established if an entity intends to sell long-lived assets (and related liabilities or other assets) to multiple buyers or to the same buyer but at different times.

4.1.3.1 Allocating goodwill to a disposal group

Guidance on allocating reporting unit goodwill to a disposal group is provided in ASC 350-20-40-1 through 40-7. That guidance requires the goodwill of a reporting unit[2] that is to be disposed of in its entirety is included as part of the carrying amount of the of the net assets to be disposed of in determining the gain or loss on disposal. When only a portion of a reporting unit is disposed of and that portion constitutes a business or nonprofit activity, some of the goodwill of the reporting unit should be assigned the portion of the reporting unit being disposed of. No goodwill should be assigned to a portion of a reporting unit being disposed of if it does not meet the definition of a business or nonprofit activity. Section 2.1.3 of our FRD, ***Business combinations***, provides guidance in determining whether a group of assets constitutes a business under ASC 805.

When a portion of a reporting unit is disposed of and that portion constitutes a business or nonprofit activity, the assignment of goodwill is based on the relative fair values of the portion of the reporting unit being disposed of and the portion of the reporting unit remaining. That is, the entity has to determine the fair value of both the business or nonprofit activity being disposed of and the business (or businesses) or nonprofit activity in the reporting unit that will be retained. When only a portion of a reporting unit is disposed of, the goodwill of the remaining reporting unit is tested for impairment under ASC 350, even if the disposition occurs between annual impairment test dates.

Illustration 4-1: Allocating goodwill to a portion of a business to be sold

In August 20X3, NYK accepts an offer for the purchase of its sporting goods equipment business while retaining its sporting goods souvenir business. Collectively, the businesses make up the sporting goods reporting unit. Therefore, an allocation of a portion of the reporting unit's goodwill to the business being sold is required in accordance with ASC 350. NYK determines the fair value of both the business being sold and the business being retained in the reporting unit as follows (values in millions):

	Sporting Goods Reporting Unit	Equipment	Souvenirs
Fair value at date of sale	$ 106 [3]	$ 33	$ 78
Carrying value of goodwill	$ 37		
Allocation of the carrying value of goodwill		$ 11	$ 26

NYK allocates $11 million of the carrying value of goodwill of $37 million to the sporting goods equipment business based on the relative fair value approach (($33/$111) x $37). The new carrying value of goodwill for the sporting goods reporting unit after the disposal of sporting goods equipment business has been sold is $26 million (($78/$111) x $37). NYK then performs a goodwill impairment test under ASC 350 on the retained portion of the reporting unit (i.e., the sporting goods souvenir business).

---

[2] Defined in ASC 350 as an operating segment or one level below an operating segment. See Appendix B for a definition of operating segment.

[3] Note that in this example, the fair value of the reporting unit as a whole is less than the aggregate fair value of the portion of the reporting unit being disposed of and the remaining portion of the reporting unit.

As stated above, goodwill should not be included in a disposal group that is a part of a reporting unit when that disposal group does not constitute a business or nonprofit activity, because, conceptually, goodwill only arises in the acquisition of a business or nonprofit activity, not a group of assets.

Illustration 4-2: When goodwill is not allocated to a portion of a reporting unit

BOS, Inc. (BOS) acquires NYY Corporation (NYY) in a business combination with NYY becoming a wholly-owned subsidiary of BOS. On the acquisition date, NYY meets the definition of a business under ASC 805 and has one principal product and two manufacturing facilities in different locations (Facility A and Facility B). Each of those facilities represents a separate asset group. Goodwill recognized in connection with the acquisition is associated with the operations of NYY (the manufacturer of its principal product), including its product distribution network and customer relationships.

Two years after the acquisition, BOS expands the productive capacity of Facility B. BOS decides to consolidate the operations performed in facilities A and B and commits to a plan to sell Facility A that meets the criteria for a qualifying plan of sale. Facility A and its related assets (i.e., equipment) will be sold. The disposal group does not constitute a business under ASC 805 at the date it meets the held for sale criteria. Therefore, goodwill is not allocated and included as part of the carrying value of the disposal group when determining the gain or loss on the disposal.

The relative fair value approach to allocate goodwill to a disposal group is *not* used when the business or nonprofit activity to be disposed of was never integrated into the reporting unit after its acquisition (e.g., a business or nonprofit activity operated as a standalone entity or a business or nonprofit activity that is to be disposed of shortly after acquisition). In that case, the current carrying amount of the acquired goodwill should be included in the carrying amount of the business or nonprofit activity to be disposed of because the rest of the reporting unit never realized the benefits of the acquired goodwill. However, situations in which the acquired business or nonprofit activity is operated as a standalone entity would be infrequent because some amount of integration generally occurs after an acquisition.

If a business, nonprofit activity or reporting unit is disposed of that includes the net assets and operations of a prior acquisition but a portion of the synergistic goodwill arising from that acquisition was assigned to a reporting unit(s) that was not disposed of, we believe the entity should consider whether the disposition is a goodwill impairment indicator for the reporting unit(s) to which that synergistic goodwill was assigned, since the benefit that gave rise to the that goodwill has been disposed of.

Refer to section 3.14 (before the adoption of ASU 2017-04) or section 3A.14 (after the adoption of ASU 2017-04) of our FRD, ***Intangibles — Goodwill and other***, for further discussion on allocating goodwill to a disposal group.

4.1.3.2 Reassessment of allocated goodwill to a disposal group

The assignment of goodwill generally occurs upon disposition. However, in some circumstances, a business or nonprofit activity that represents a portion of a reporting unit may not have been disposed of at the balance sheet date but qualifies as held for sale under ASC 205-20 or ASC 360-10. In this situation, the entity assigns the goodwill once the held for sale criteria are met (i.e., before disposal) to determine the appropriate amount of goodwill to include in the carrying value of the disposal group. As discussed in section 4.1.3.1, the initial allocation of goodwill to the disposal group would be based on the relative fair values of the portion of the reporting unit being disposed of and the portion of the reporting unit remaining.

When the disposition of the disposal group will occur in a subsequent reporting period, a question arises about whether an entity must reassess the allocation of goodwill to the disposal group at each reporting date and the date on which the disposal occurs. If the entity reorganizes its reporting structure in connection with the planned disposition and the disposal group represents a new reporting unit, no reassessment would

be performed in subsequent reporting periods (refer to section 3.12 (before the adoption of ASU 2017-04) or section 3A.12 (after the adoption of ASU 2017-04) in our FRD, ***Intangibles — Goodwill and other***, for further discussion involving reorganization of a company's reporting structure, including impairment considerations). However, when the disposition will occur in a subsequent reporting period and the entity concludes that the disposal group does not represent a new reporting unit, the entity should monitor the allocation of goodwill to the disposal group at each reporting date and the date on which the disposal occurs. That is, the entity may need to reallocate goodwill if there are significant changes in the relative fair values of the business or nonprofit activity to be disposed of and the reporting unit to be retained.

4.2 Measurement

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-43

A long-lived asset (disposal group) classified as held for sale shall be measured at the lower of its carrying amount or fair value less cost to sell. If the asset (disposal group) is newly acquired, the carrying amount of the asset (disposal group) shall be established based on its fair value less cost to sell at the acquisition date. A long-lived asset shall not be depreciated (amortized) while it is classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be accrued.

360-10-35-38

Costs to sell are the incremental direct costs to transact a sale, that is, the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made. Those costs include broker commissions, legal and title transfer fees, and closing costs that must be incurred before legal title can be transferred. Those costs exclude expected future losses associated with the operations of a long-lived asset (**disposal group**) while it is classified as held for sale. Expected future operating losses that marketplace participants would not similarly consider in their estimates of the fair value less cost to sell of a long-lived asset (disposal group) classified as held for sale shall not be indirectly recognized as part of an expected loss on the sale by reducing the carrying amount of the asset (disposal group) to an amount less than its current fair value less cost to sell. If the sale is expected to occur beyond one year as permitted in limited situations by paragraph 360-10-45-11, the cost to sell shall be discounted.

360-10-35-39

The carrying amounts of any assets that are not covered by this Subtopic, including goodwill, that are included in a disposal group classified as held for sale shall be adjusted in accordance with other applicable GAAP prior to measuring the fair value less cost to sell of the disposal group. Paragraphs 350-20-40-1 through 40-7 provide guidance for allocating goodwill to a lower-level asset group to be disposed of that is part of a reporting unit and that constitutes a business. Goodwill is not included in a lower-level asset group to be disposed of that is part of a reporting unit if it does not constitute a business.

Assets held for sale are initially measured at the lower of their carrying amount or fair value less cost to sell. A loss is recognized for any initial adjustment of the carrying amount of the long-lived asset (disposal group) to its fair value less cost to sell in the period the held for sale criteria are met. The fair value less cost to sell of the long-lived asset (disposal group) should be assessed each reporting period it remains classified as held for sale. Subsequent changes in the long-lived asset's fair value less cost to sell (increase or decrease) would be reported as an adjustment to its carrying amount, except that the adjusted carrying amount should not exceed the carrying amount of the long-lived asset at the time it was initially classified as held for sale.

4.2.1 ASC 820 and fair value less costs to sell

The fair value less cost to sell measurement objective in ASC 360-10 consists of two separate components — (1) fair value and (2) cost to sell. The fair value component of this measurement is determined in accordance with the principles of ASC 820 (i.e., exit price, market participants assumptions, etc.) and would include those costs that a willing buyer and willing seller would include in pricing the asset (i.e., the cash flows assumed in estimating the terminal value of the asset). Transaction costs expected to be incurred by the seller would be included in the estimate of costs to sell for purposes of applying ASC 360-10.

Illustration 4-3: Measuring fair value less costs to sell

Assume NYI Corp. purchases real estate from NJD, Inc. for $500. Included in that transacted fair value amount were certain costs that market participants consider in pricing the asset. Also assume that costs to sell, as defined in ASC 360-10, are $15. Assuming there was no bargain purchase, if NYI were to consider the real estate held for sale immediately after acquiring it, the real estate's fair value presumably would be $500. Under ASC 360-10, however, the real estate held for sale would be measured at $485, i.e., fair value ($500) less costs to sell ($15).

4.2.2 Costs to sell

Costs to sell are the incremental direct costs to transact a sale (i.e., the costs that result directly from and are essential to a sale transaction and that would not have been incurred by the entity had the decision to sell not been made). If the fair value of the disposal group is measured by a current market value or by using current selling prices for similar disposal groups, that fair value would be considered to be a current amount; and therefore, the fair value and the costs to sell usually would not be discounted.

Examples of costs to sell include:

- Broker commissions
- Legal fees
- Title transfer fees
- Closing costs that must be incurred before legal title can be transferred

Costs that generally do not qualify as selling costs include:

- Insurance
- Security services
- Utility expenses
- Other costs of protecting or maintaining the assets during the holding period

By reflecting costs to sell in the value of a long-lived asset (disposal group), they are essentially being accrued. Accordingly, entities should make reasonable estimates of such costs and only include them in the valuation when the costs are probable and reasonably estimable. We recommend that entities establish valuation accounts or contra-assets against the long-lived asset's fair value, such that when the costs to sell are actually incurred, the contra-asset is debited.

4.2.3 Initial adjustment to fair value less cost to sell and interaction with other standards

A long-lived asset or disposal group is measured at the lower of its carrying amount or fair value less cost to sell. A loss is recognized for any initial adjustment of the carrying amount of the long-lived asset (disposal group) to fair value less cost to sell in the period the held for sale criteria are met.

Illustration 4-4: Recording the initial adjustment to fair value less costs to sell

CHC Inc. operates two facilities that produce power tools and decides to consolidate its operations. On 1 July 20X2, CHC Inc.'s board commits to sell a manufacturing facility that has a carrying amount of $10 million. On 1 July 20X2, all of the held for sale criteria are met so after adjusting the individual assets and liabilities of the disposal group in accordance with generally accepted accounting principles, the entity estimates the fair value of the facility at $9 million. The costs to sell the building, including brokers' commissions, legal fees and other closing costs, total $1 million. Accordingly, the entity records a $2 million loss (i.e., credit long-lived assets and debit loss on sale of facility) on 1 July 20X2, representing the excess of the $10 million carrying amount over the $8 million fair value less cost to sell. If the facility's fair value less cost to sell was $12 million on 1 July 20X2, no gain would be recorded and the carrying value of the facility would remain at $10 million. Additionally, costs to sell would be expensed as incurred or deferred and expensed as part of the sale.

4.2.3.1 Individual long-lived assets

The fair value of a long-lived asset to be sold is determined in the same manner as an impaired long-lived asset to be held and used. Refer to section 2.4 for further discussion.

4.2.3.2 Disposal groups (updated May 2023)

When a disposal group meets the held for sale criteria, the entity must first evaluate whether the carrying amounts of the assets (that are not covered by ASC 360-10) and liabilities (if any) included in a disposal group should be adjusted in accordance with other generally accepted accounting principles (e.g., adjusting receivables to their net realizable value, inventory based on the applicable subsequent measurement guidance in ASC 330-10-35) before measuring the fair value less cost to sell of the disposal group. If a disposal group includes goodwill, then the goodwill is adjusted for an impairment loss under ASC 350 before measuring the fair value of the disposal group. (Note that this ordering is different than when testing a long-lived asset (group) that is held and used.) If a long-lived asset is being sold separately (or sold only with other long-lived assets), these rules are not relevant because the disposal group would not include assets and liabilities outside the scope of ASC 360-10.

The following example highlights the order in which assets and liabilities of a disposal group should be adjusted in accordance with generally accepted accounting principles.

Illustration 4-5: Impairment hierarchy

Assume LAD, Inc. is selling a disposal group that constitutes a reporting unit and includes the following assets and liabilities (which will be assumed by the buyer):

Receivables	Inventory
Warranty liabilities	Environmental liabilities
Goodwill	PP&E
Nonamortizing intangibles	Amortizing intangibles

Before measuring the fair value less cost to sell of the disposal group as a whole, LAD would adjust the assets and liabilities of the disposal group in accordance with generally accepted accounting principles, in the following order:

1. Receivables, nonamortizing intangibles, inventory, warranty liabilities, environmental liabilities
2. Goodwill
3. PP&E, amortizing intangibles (i.e., assets within the scope of ASC 360-10)

After adjusting the individual assets and liabilities of the disposal group, the disposal group as a whole is measured at the lower of its carrying amount or fair value less cost to sell. Entities generally establish a valuation allowance, which would offset the original carrying value of the long-lived asset (disposal group) before any adjustments are made. While ASC 360-10 does not prescribe a method for recording the long-lived asset (disposal group) write-down, we believe it would be appropriate to maintain a valuation allowance or contra-asset account in which the asset adjustments would be recorded. This valuation allowance would be adjusted based on subsequent changes in the entity's estimate of fair value less cost to sell. If the fair value less cost to sell increases, the carrying amount of the long-lived assets would be adjusted upward; however, the increased carrying amount cannot exceed the carrying amount of the long-lived asset before the decision to dispose of the asset was made.

Separate financial statements of subsidiaries that are a disposal group held for sale

When a parent entity intends to sell a subsidiary that meets the definition of a disposal group, the parent entity needs to determine whether the held for sale criteria described in section 4.1.1 are met. If they are, it needs to measure the disposal group at the lower of its carrying amount or fair value less cost to sell in the consolidated financial statements. When the subsidiary that is also considered a disposal group by its parent issues separate financial statements, it must separately evaluate whether its own long-lived assets are impaired and whether those assets are considered held and used or held for sale.

If the subsidiary will continue to operate in a manner similar to its current operations, it might conclude in its separate financial statements that its long-lived assets (groups) continue to be held and used rather than held for sale. The subsidiary still may need to determine whether its long-lived assets (groups) require impairment testing under ASC 360-10.

For example, if the parent decides to dispose of and/or recognize an adjustment to reduce the carrying amount of the disposal group (subsidiary) to fair value less cost to sell, the subsidiary should then consider whether impairment indicators are present (Step 1) and, if necessary, perform a recoverability test (Step 2) to determine whether an impairment loss should be recognized for purposes of the subsidiary's standalone financial statements.

When assets are classified as held and used at the subsidiary level, the subsidiary's recoverability test (Step 2) performed is based on the future net undiscounted cash flows expected to be generated from the use of the asset group, as described in section 2.3.2, and does not consider the parent's disposal. Therefore, when the parent recognizes a loss to reduce the carrying amount of the subsidiary in the parent's financial statements, an impairment loss may not be required to be recognized in the subsidiary's standalone financial statements.

4.2.3.3 SEC staff views — recording impairment losses for disposal groups

In December 2008, Adam Brown, a Professional Accounting Fellow in the SEC's Office of the Chief Accountant, discussed the allocation of an impairment loss to a disposal group in a speech to the AICPA's National Conference on Current SEC and PCAOB Developments.

Speech excerpts by Adam Brown, Professional Accounting Fellow

2008 AICPA Conference on SEC and PCAOB Developments[4]

[...] Consider a fact pattern in which a disposal group held for sale was established that consisted of long-lived assets in the form of property & equipment, as well as other assets such as trade receivables, and inventory. An estimate of the group's fair value, less its costs to sell, was lower than the group's carrying value. Further, the difference between the disposal group's fair value and its carrying value exceeded the existing net book value of long-lived assets. This might lead you to a question: "Should you recognize a liability for the loss in excess of the carrying amount of the long-lived assets, and, if so, what does it represent?"

I can think of two views for this particular fact pattern. One approach is to record the loss in excess of the carrying amount of the long-lived assets as a reduction to the carrying value of the entire group, effectively reducing trade receivables and inventory. A second approach is to limit the impairment to the carrying value of the long-lived assets in the disposal group.

The first view interprets paragraph 34 of Statement 144 [ASC 360-10-35-43] to redefine the unit of account as the disposal group and to record it at the lower of its carrying amount or fair value less cost to sell. In effect, individual assets lose their identity, even though the recoverability of AR and inventory are addressed by other GAAP.

The second view looks at paragraph 37 of Statement 144 [ASC 360-10-35-40], which indicates a "loss…shall adjust only the carrying amount of a long-lived asset, whether classified as held for sale individually or as part of a disposal group." This approach would limit the loss to the carrying value of the long-lived assets. There seems to be an additional level of simplicity in the second view in that it does not result in the recognition of what, in effect, is a liability created by an asset impairment model. In addition, it appears more consistent with the change from Opinion 30 to Statement 144 [ASC 360-10]. That evolution eliminated prior guidance which stated that "if a loss is expected from [a] proposed sale, the estimated loss should be provided for at the measurement date." We note other applicable GAAP, such as Statements 5, 143, and 146 [ASC 450, ASC 410-20 and ASC 420] (among others) provide guidance for recording liabilities. Finally, the simplicity of this view is that it also interprets Statement 144's [ASC 360-10)] scope to address the impairment or disposal of long-lived assets, and that it isn't intended to address the recognition of liabilities.

After considering these two views, we ultimately concluded that we would not object to either interpretation of the literature. If companies expect to incur a loss on sale in excess of the impairment associated with long-lived assets, it may be an indicator that other assets such as AR and inventory are impaired. In any event, we believe that registrants who use the first view should clearly disclose where such amounts are reflected in the financial statements and whether additional losses are expected in the future.

[4] All footnote references in the text of the speech have been omitted.

4.2.4 Subsequent changes to fair value less cost to sell

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-40

A loss shall be recognized for any initial or subsequent write-down to fair value less cost to sell. A gain shall be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative loss previously recognized (for a write-down to fair value less cost to sell). The loss or gain shall adjust only the carrying amount of a long-lived asset, whether classified as held for sale individually or as part of a disposal group.

Derecognition

360-10-40-5

A gain or loss not previously recognized that results from the sale of a long-lived asset (disposal group) shall be recognized when the long-lived asset (disposal group) is derecognized in accordance with applicable Topics (for example, Topic 610 on other income, Topic 810 on consolidation, or Topic 860 on transfers and servicing).

The fair value less cost to sell of the long-lived asset (disposal group) must be evaluated each period to determine if it has changed. If that evaluation reveals subsequent changes in the long-lived asset's (disposal group's) fair value less cost to sell (i.e., either an increase or decrease), then a gain (subject to limitations) or loss should be recognized, with a corresponding adjustment to the carrying amount of the long-lived asset (disposal group) or adjustment to the valuation allowance. A gain should be recognized for any subsequent increase in fair value less cost to sell, but not in excess of the cumulative net loss previously recognized. In other words, the carrying amount of a long-lived asset (disposal group) should never exceed its carrying amount when it was initially classified as held for sale.

Illustration 4-6: Recording subsequent changes to fair value less costs to sell

Assuming the same facts as in Illustration 4-4, on 30 September 20X2 after CHC Inc.'s initial fair value less cost to sell valuation, the facility's fair value increases and CHC Inc. now estimates the fair value to be $9.5 million (up from $9 million). Assuming the estimated cost to sell the property remains at $1 million, CHC Inc. would debit $500,000 of the $2 million valuation allowance and credit the same income statement account that was initially debited when the loss from the initial adjustment to fair value was recorded. If the fair value less costs to sell subsequently increases to $11.5 million, the remaining $1.5 million valuation allowance would be debited; however, the carrying amount of the facility would not be written up above the carrying amount before the decision to sell was made ($10 million) and any cost to sell would be expensed as incurred or deferred until the sale is recorded.

If an entity is adequately evaluating the fair value less cost to sell of the long-lived asset (disposal group), it would be uncommon for an entity to record significant losses at the time of derecognition. This is because the loss should have been reflected in the fair value less cost to sell of the long-lived asset when the held for sale criteria are initially met and revised as evidence of selling prices develop. However, if a significant change in its fair value less cost to sell occurred after the last time a long-lived asset (disposal group) was valued (i.e., a revised estimate and derecognition occur in the same quarter), recording the loss at the time of derecognition would be appropriate.

4.2.5 Effect of a sales contract on fair value for assets held for sale

In some situations, the entity may enter into a sales contract for the disposal group several periods before the transaction closes. When determining fair value in periods after the sales contract was entered into, but before the transaction closes, it is not clear how the sales contract should be considered in the measure of fair value for the disposal group. In many instances, the time between the date on which the sales contract was executed and the measurement date will be so brief that it is unlikely that the value will change significantly, however, there may be exceptions. We believe that the sales contract is effectively a component of the asset group, such that changes in the fair value of the asset group would, in many cases, be largely offset by changes in the fair value of the sales contract. This analysis is very fact specific and could be affected by a number of factors, including the ability of the buyer to terminate the contract.

4.2.6 Depreciation

Depreciation is not recorded during the period in which the long-lived asset (disposal group) is classified as held for sale, even if the long-lived asset (disposal group) is still generating revenue. The FASB concluded that because the carrying amount of a long-lived asset (disposal group) to be sold will be recovered through sale and not through future operations, the carrying amount of those long-lived assets (disposal groups) is related to their current fair value. Depreciation, which is intended to allocate the costs of using a long-lived asset over the period in which it generates revenue, is not relevant to a long-lived asset that is being held for sale (even though they may be used in operations through the date of sale). In addition, because a long-lived asset (disposal group) to be sold will be evaluated each period for a change in its fair value less cost to sell, changes in the recoverability will be recorded each period.

4.2.7 Newly acquired long-lived assets to be sold

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Other Presentation Matters

360-10-45-12

A long-lived asset (disposal group) that is newly acquired and that will be sold rather than held and used shall be classified as held for sale at the acquisition date only if the one-year requirement in paragraph 360-10-45-9(d) is met (except as permitted by the preceding paragraph) and any other criteria in paragraph 360-10-45-9 that are not met at that date are probable of being met within a short period following the acquisition (usually within three months).

Business Combinations — Identifiable Assets and Liabilities, and Any Noncontrolling Interest

Initial Measurement

Assets Held for Sale

805-20-30-22

The acquirer shall measure an acquired long-lived asset (or disposal group) that is classified as held for sale at the acquisition date in accordance with Subtopic 360-10, at fair value less cost to sell in accordance with paragraphs 360-10-35-38 and 360-10-35-43.

The above provisions apply to a long-lived asset (group) acquired in connection with a business combination or an asset acquisition. In order to have a long-lived asset (disposal group) classified as held for sale as of the acquisition date, we would expect that entities have begun formulating a plan to sell the long-lived asset (disposal group) as of the acquisition date and that they would deem it probable that the held for sale criteria will be met within three months.

Illustration 4-7: Newly acquired long-lived assets to be sold

As part of an acquisition of a logistics company, NJD Corp. acquires a ship on 1 January 20X0. On the acquisition date, NJD had the intention to sell the ship but did not expect to meet the held for sale criteria until 15 May 20X0. We would expect that NJD would not classify the ship as held for sale as of the acquisition date.

However, if on 1 January 20X0, NJD believes that it is probable that the held for sale criteria would be met by 31 March 20X0, we would expect the ship to be classified as held for sale. If on 31 March 20X0, the entity does not meet the held for sale criteria and does not expect to meet them in the near future, the entity should reclassify the boat as held and used by following the guidance in the section 4.3.

If a long-lived asset has been newly acquired in a business combination and is classified as held for sale at the acquisition date, it is measured at its fair value less cost to sell in accordance with ASC 805-20-30-22. Similar to other long-lived assets, expected operating losses of a newly acquired long-lived asset (disposal group) are recognized in the statement of operations as incurred.

A newly acquired business or nonprofit activity that meets the held for sale criteria as prescribed by ASC 205-20-45-1E at the acquisition date qualifies for reporting as a discontinued operation. Refer to our FRD, ***Discontinued operations — Accounting Standards Codification 205-20***, for further guidance on newly acquired businesses and nonprofit activities that qualify for reporting as a discontinued operation.

4.2.8 Accounting for foreclosed assets received in settlement of a receivable

Excerpt from Accounting Standards Codification

Receivables — Troubled Debt Restructurings by Creditors

Derecognition

310-40-40-5

After a troubled debt restructuring, a creditor shall account for assets received in satisfaction of a receivable the same as if the assets had been acquired for cash.

Pending Content:

Transition Date: ***(P) December 16, 2022; (N) December 16, 2022*** **|** Transition Guidance: 326-10-65-5

[Paragraph superseded by Accounting Standards Update No. 2022-02]

310-40-40-8A

The initial cost basis of a debt security of the original debtor received as part of a debt restructuring shall be the security's fair value at the date of the restructuring. Any excess of the fair value of the security received over the net carrying amount of the loan shall be recorded as a recovery on the loan. Any excess of the net carrying amount of the loan over the fair value of the security received shall be recorded as a charge-off to the allowance for credit losses. Subsequent to the restructuring, the security received shall be accounted for according to the provisions of Topic 320.

Pending Content:

Transition Date: ***(P) December 16, 2022; (N) December 16, 2022*** **|** Transition Guidance: 326-10-65-5

[Paragraph superseded by Accounting Standards Update No. 2022-02]

Subsequent Measurement

310-40-35-10

A loan restructured in a troubled debt restructuring is an impaired loan. It should not be accounted for as a new loan because a troubled debt restructuring is part of a creditor's ongoing effort to recover its investment in the original loan. A loan usually will have been identified as impaired because the conditions specified in paragraphs 310-10-35-16 through 35-17 will have existed before a formal restructuring.

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2022* **| Transition Guidance:** 326-10-65-1

Editor's note: The content of paragraph 310-40-35-10 will change upon the adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*.

A loan restructured in a troubled debt restructuring shall not be accounted for as a new loan because a troubled debt restructuring is part of a creditor's ongoing effort to recover its investment in the original loan. Topic 326 provides guidance on measuring credit losses on financial assets and requires credit losses to be recorded through an allowance for credit loss account, including concessions given to the borrower upon a troubled debt restructuring.

Pending Content:

Transition Date: ***(P) December 16, 2022; (N) December 16, 2022*** **|** Transition Guidance: 326-10-65-5

[Paragraph superseded by Accounting Standards Update No. 2022-02]

Implementation Guidance and Illustrations

Example 2: Fair Value Less Cost to Sell Less than the Seller's Net Receivable

310-40-55-13

This Example illustrates the guidance in Subtopic 310-40. The Example has the following assumptions:

a. At December 31, 2002, a lender's net real estate loan receivable was $90,000. The net receivable was comprised of (a) $100,000 principal balance and (b) $10,000 allowance for doubtful accounts due to the deterioration of the borrower's credit worthiness; the allowance was based on the underlying value of the real estate since the loan is collateral dependent.

b. Between December 31, 2002 and March 31, 2003, the borrower did not make principal payments. The lender determined that foreclosure was **probable** on March 31, 2003; the real estate's estimated fair value was $75,000. The estimated costs to sell were $4,000.

c. On May 1, 2003, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March 31, 2003. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.

d. At September 30, 2003, the fair value of the property was $65,000. The estimated costs to sell were $3,000.

e. At March 31, 2004, the fair value of the property was $80,000. The estimated costs to sell were $5,000.

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2022* | **Transition Guidance:** 326-10-65-1

Editor's note: The content of paragraph 310-40-55-13 will change upon the adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments.*

This Example illustrates the guidance in Subtopic 310-40. The Example has the following assumptions:

a. At December 31, 20X2, a lender's net real estate loan receivable was $90,000. The net receivable was comprised of (a) $100,000 principal balance and (b) $10,000 allowance for credit losses due to the deterioration of the borrower's credit worthiness; the allowance was based on the underlying value of the real estate since the loan is collateral dependent.

b. Between December 31, 20X2 and March 31, 20X3, the borrower did not make principal payments. On March 31, 20X3, the real estate's estimated fair value was $75,000. The estimated costs to sell were $4,000.

c. On May 1, 20X3, the lender foreclosed on the real estate; the real estate's estimated fair value and costs to sell remained unchanged from March 31, 20X3. The real estate was classified as held for sale under Topic 360, subsequent to foreclosure.

d. At September 30, 20X3, the fair value of the property was $65,000. The estimated costs to sell were $3,000.

e. At March 31, 20X4, the fair value of the property was $80,000. The estimated costs to sell were $5,000.

Pending Content:

Transition Date: ***(P) December 16, 2022; (N) December 16, 2022*** | Transition Guidance: 326-10-65-5

[Paragraph superseded by Accounting Standards Update No. 2022-02]

310-40-55-14

Paragraphs 310-10-35-16 through 35-17 states that a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. The lender determined that foreclosure is probable at March 31, 2003, and should measure the impairment based on the fair value of the collateral less estimated costs to sell since the selling costs reduce the cash flows available to satisfy the loan as prescribed under paragraphs 310-10-35-22, 310-10-35-24, and 310-10-35-32. Accordingly, the lender should recognize a loan loss of $19,000 measured as the difference between the carrying value ($90,000) and the fair value less cost to sell ($71,000). Upon foreclosure on May 1, 2003, the application of paragraph 310-40-40-5 results in the measurement of a new cost basis (also $71,000) for long-lived assets received in full satisfaction of a receivable.

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2022* | **Transition Guidance:** 326-10-65-1

Editor's note: The content of paragraph 310-40-55-14 will change upon the adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments.*

On March 31, 20X3, the lender estimates expected credit losses using the fair value of the collateral in accordance with paragraph 326-20-35-2. Accordingly, the lender should record an allowance for credit losses in the cumulative amount of $29,000 ($19,000 incremental amount plus $10,000 recorded previously) measured as the difference between the amortized cost basis ($100,000) and the fair value less cost to sell ($71,000). Upon foreclosure on May 1, 20X3, the application of paragraph 310-40-40-5 results in the measurement of a new cost basis (also $71,000) for long-lived assets received in full satisfaction of a receivable.

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2022* | **Transition Guidance:** 326-10-65-2

Editor's note: The content of paragraph 310-40-55-14 will change upon the adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments.*

On March 31, 20X3, the lender estimates expected credit losses using the fair value of the collateral in accordance with paragraphs 326-20-35-4 through 35-5. Accordingly, the lender should record an allowance for credit losses in the cumulative amount of $29,000 ($19,000 incremental amount plus $10,000 recorded previously) measured as the difference between the amortized cost basis ($100,000) and the fair value less cost to sell ($71,000). Upon foreclosure on May 1, 20X3, the application of paragraph 310-40-40-5 results in the measurement of a new cost basis (also $71,000) for long-lived assets received in full satisfaction of a receivable.

Pending Content:

Transition Date: ***(P) December 16, 2022; (N) December 16, 2022*** | Transition Guidance: 326-10-65-5

[Paragraph superseded by Accounting Standards Update No. 2022-02]

310-40-55-15

The fair value less cost to sell decrease to $62,000 as of September 30, 2003, requires the lender to recognize an impairment of $9,000 ($71,000 — $62,000) under Topic 360. While the long-lived asset's fair value less cost to sell increased $13,000 ($75,000 — $62,000) as of March 31, 2004, the lender's gain recognition is limited to the cumulative losses recognized and measured under that Topic, or $9,000. The $19,000 of loan impairment losses are excluded from the measurement of cumulative losses under that Topic.

Pending Content:

Transition Date: *(P) December 16, 2019; (N) December 16, 2022* | **Transition Guidance:** 326-10-65-1

Editor's note: The content of paragraph 310-40-55-15 will change upon the adoption of ASU 2016-13, *Measurement of Credit Losses on Financial Instruments.*

The fair value less cost to sell decrease to $62,000 as of September 30, 20X3, requires the lender to recognize an impairment of $9,000 ($71,000 - $62,000) under Topic 360. While the long-lived asset's fair value less cost to sell increased $13,000 ($75,000 — $62,000) as of March 31, 20X4, the lender's gain recognition is limited to the cumulative losses recognized and measured under Topic 360, or $9,000. The $29,000 of credit losses recognized previously under Subtopic 326-20 on financial instruments measured at amortized cost are excluded from the measurement of cumulative losses under Topic 360.

Pending Content:

Transition Date: *(P) December 16, 2022; (N) December 16, 2022* | **Transition Guidance:** 326-10-65-5

[Paragraph superseded by Accounting Standards Update No. 2022-02]

Provided the property meets the held-for-sale classification criteria in ASC 360-10, at the time of foreclosure, the property's fair value, less cost to sell, becomes the cost basis of the foreclosed real estate. The amount, if any, by which the recorded investment in the loan (plus any senior debt) exceeds the fair value, less costs to sell, of the property is a credit loss that is charged to the allowance for credit losses. ASU 2016-13, *Measurement of Credit Losses on Financial Instruments,* clarifies that the credit loss is measured as the excess of the amortized cost basis of the loan over the fair value less cost to sell of the foreclosed property, which on a cumulative basis includes any previously recorded allowance for credit losses. At each subsequent balance sheet date, foreclosed property is reported at the lower of the current fair value less cost to sell the asset or the asset's cost basis. If the fair value less cost to sell is

less than the property's cost basis, the deficiency is recognized as a valuation allowance against the asset with a corresponding charge to expense. Note that any subsequent impairment losses are measured from that initial cost basis of the lender. The allowance for credit losses on the collateralized loan is not considered in determining the cumulative impairment losses of the property under ASC 360-10.

The guidance in ASC 610-20 and ASC 606 should be considered in determining the appropriate accounting for the disposal of foreclosed real estate.

For more information, refer to our FRD, ***Credit impairment under ASC 326***, section 2.7, *Measurement considerations for financial assets secured by collateral*.

4.3 Changes to a plan of sale

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Subsequent Measurement

360-10-35-44

If circumstances arise that previously were considered unlikely and, as a result, an entity decides not to sell a long-lived asset (disposal group) previously classified as held for sale, the asset (disposal group) shall be reclassified as held and used. A long-lived asset that is reclassified shall be measured individually at the lower of the following:

a. Its carrying amount before the asset (disposal group) was classified as held for sale, adjusted for any depreciation (amortization) expense that would have been recognized had the asset (disposal group) been continuously classified as held and used

b. Its fair value at the date of the subsequent decision not to sell.

360-10-35-45

If an entity removes an individual asset or liability from a disposal group previously classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the criteria in paragraph 360-10-45-9 are met. Otherwise, the remaining long-lived assets of the group shall be measured individually at the lower of their carrying amounts or fair values less cost to sell at that date.

Other Presentation Matters

360-10-45-6

If circumstances arise that previously were considered unlikely and, as a result, an entity decides not to sell a long-lived asset (disposal group) previously classified as held for sale, the asset (disposal group) shall be reclassified as held and used.

360-10-45-7

Any required adjustment to the carrying amount of a long-lived asset that is reclassified as held and used shall be included in income from continuing operations in the period of the subsequent decision not to sell. That adjustment shall be reported in the same income statement caption used to report a loss, if any, recognized in accordance with paragraph 360-10-45-5. If a component of an entity is reclassified as held and used, the results of operations of the component previously reported in discontinued operations in accordance with paragraph 205-20-45-3 shall be reclassified and included in income from continuing operations for all periods presented.

360-10-45-8

Any long-lived assets that will not be sold shall be reclassified as held and used in accordance with paragraph 360-10-35-44.

If an entity subsequently decides not to sell a long-lived asset (disposal group) classified as held for sale, or if a long-lived asset (disposal group) no longer meets the held for sale criteria, a long-lived asset (disposal group) would be reclassified as held and used in the period in which the held for sale criteria are no longer met. A long-lived asset that is reclassified from held for sale to held and used should be measured individually at the lower of either its:

- Carrying amount before it was classified as held for sale, adjusted for any depreciation (amortization) expense or impairment losses that would have been recognized had the asset (group) been continuously classified as held and used
- Fair value at the date of the subsequent decision not to sell

Assets and liabilities of a disposal group not included in the scope of ASC 360-10 will not be adjusted as a result of the change to a plan of sale, because their carrying values are not adjusted upon measuring the fair value less cost to sell of the disposal group.

The effect of any required adjustment would be reflected in income from continuing operations at the date of the decision not to sell and/or the period in which the held for sale criteria are no longer met. One interesting result of applying the change to a plan of sale provision is that, if a held for sale long-lived asset (disposal group) is measured at its fair value less costs to sell and then remeasured to its fair value because of a change to a plan of sale (presuming the fair value is less than the original carrying amount less depreciation), there will be an immediate write-up in the carrying value of the long-lived asset (group) reflected in income, as a result of the elimination of the costs to sell from the measurement of the long-lived asset (group).

In addition, when a change to a plan of sale occurs, the statement of financial position should no longer separately identify the long-lived assets (or the assets and liabilities of a disposal group) as held for sale for all periods presented. If the entity disclosed the carrying amounts of the assets and liabilities of a disposal group in a footnote, it should be eliminated.

Illustration 4-8: Change in a plan of sale

On 31 December 20X2, RRJ Company recorded an impairment charge on a long-lived asset as part of a qualifying plan of sale as follows:

Cost	$	1,000
Depreciable life		10 years
Salvage value	$	0
Net book value	$	800
Impairment charge	$	200

On 30 September 20X3, RRJ Company decides to retain the long-lived asset due to a change in market conditions. The following information existed at 30 September 20X3:

Fair value less costs to sell (i.e., net book value less valuation allowance)	$	600
Fair value at 30 September 20X3	$	740
Net book value had the long-lived asset never been classified as held for sale adjusted for depreciation	$	725

As a result, RRJ Company would write up the long-lived asset from $600 to $725 (i.e., the lower of its carrying amount before it was classified as held for sale, adjusted for any depreciation or other expense that would have been recognized had the asset been continuously classified as held and used, or its fair value at the date of the subsequent decision not to sell) as of 30 September 20X3. The $125 adjustment would be reflected as a component of income from continuing operations in the same income statement line item that reflected the initial adjustment (unless the original adjustment was reported as a discontinued operation).

If an entity elects not to sell an individual asset or liability from a disposal group classified as held for sale, the assets and liabilities that remain in the disposal group would continue to be measured as a group, assuming the held for sale criteria are still met. If the held for sale criteria are no longer met for the remainder of the disposal group (e.g., if the long-lived assets are to be disposed of individually), the remaining long-lived assets of the disposal group would be measured individually at the lower of their carrying amounts or fair values less cost to sell. The individual asset or liability removed from the disposal group also should be remeasured.

4.4 Cumulative translation adjustments and other items of accumulated other comprehensive income in impairment of disposal groups (updated September 2022)

Excerpt from Accounting Standards Codification

Foreign Currency Matters — Translation of Financial Statements

Other Presentation Matters

830-30-45-13

An entity that has committed to a plan that will cause the cumulative translation adjustment for an equity method investment or a consolidated investment in a foreign entity to be reclassified to earnings shall include the cumulative translation adjustment as part of the carrying amount of the investment when evaluating that investment for impairment. The scope of this guidance includes an investment in a foreign entity that is either consolidated by the reporting entity or accounted for by the reporting entity using the equity method. This guidance does not address either of the following:

a. Whether the cumulative translation adjustment shall be included in the carrying amount of the investment when assessing impairment for an investment in a foreign entity when the reporting entity does not plan to dispose of the investment (that is, the investment or related consolidated assets are held for use)

b. Planned transactions involving foreign investments that, when consummated, will not cause a reclassification of some amount of the cumulative translation adjustment.

830-30-45-14

In both cases, paragraph 830-30-40-1 is clear that no basis exists to include the cumulative translation adjustment in an impairment assessment if that assessment does not contemplate a planned sale or liquidation that will cause reclassification of some amount of the cumulative translation adjustment. (If the reclassification will be a partial amount of the cumulative translation adjustment, this guidance contemplates only the cumulative translation adjustment amount subject to reclassification pursuant to paragraphs 830-30-40-2 through 40-4.)

830-30-45-15

An entity shall include the portion of the cumulative translation adjustment that represents a gain or loss from an effective hedge of the net investment in a foreign operation as part of the carrying amount of the investment when evaluating that investment for impairment.

Accumulated foreign currency translation adjustments are reclassified to net income only when realized upon sale or upon complete or substantially complete liquidation of the investment in the foreign entity (see ASC 830-30-40-1 through 40-4 for additional guidance). Refer to our FRD, ***Foreign Currency Matters***, section 4.4.3 for further discussion on foreign currency translation adjustments.

ASC 830-30-45-13 requires an entity that has committed to a plan that will cause the cumulative translation adjustment (CTA) for an equity method investment or a consolidated investment in a foreign entity to be reclassified to earnings to include the CTA as part of the carrying amount of the investment when evaluating that investment for impairment, regardless of whether the CTA is a debit or credit balance.

There is no specific guidance that addresses how to treat other items included in accumulated other comprehensive income (AOCI) (e.g., unrealized holding gains and losses on available-for-sale debt securities, gains and losses related to postretirement benefits) when evaluating a disposal group for impairment. We believe that an entity may analogize to the guidance in ASC 830-30-45-13 to include other items in AOCI in the carrying amount of a disposal group when evaluating it for impairment. The entity would need to make sure that the assets or liabilities to which the amounts in AOCI relate are included in the disposal group. For example, an entity that disposes of a disposal group, including a subsidiary that is a sponsor of a defined benefit pension plan, and will continue to be so after the disposal, may include pension gains and losses in AOCI in the carrying amount of the disposal group when evaluating it for impairment.

4.5 Presentation and disclosure

Excerpt from Accounting Standards Codification

Property, Plant, and Equipment — Overall

Other Presentation Matters

360-10-45-5

A gain or loss recognized (see Subtopic 610-20 on the sale or transfer of a nonfinancial asset) on the sale of a long-lived asset (disposal group) that is not a discontinued operation shall be included in income from continuing operations before income taxes in the income statement of a business entity. If a subtotal such as income from operations is presented, it shall include the amounts of those gains or losses.

Other Presentation Matters

360-10-45-14

A long-lived asset classified as held for sale (but not qualifying for presentation as a discontinued operation in the statement of financial position in accordance with paragraph 205-20-45-10) shall be presented separately in the statement of financial position of the current period. The assets and liabilities of a disposal group classified as held for sale shall be presented separately in the asset and liability sections, respectively, of the statement of financial position. Those assets and liabilities shall not be offset and presented as a single amount. The major classes of assets and liabilities classified as held for sale shall be separately presented on the face of the statement of financial position or disclosed in the notes to financial statements (see paragraph 360-10-50-3(e)).

Disclosure

360-10-50-3

For any period in which a long-lived asset (**disposal group**) either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9), an entity shall disclose all of the following in the notes to financial statements:

a. A description of the facts and circumstances leading to the disposal or the expected disposal.

b. The expected manner and timing of that disposal.

c. The gain or loss recognized in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5.

d. If not separately presented on the face of the statement where net income is reported (or in the statement of activities for a not-for-profit entity), the caption in the statement where net income is reported (or in the statement of activities for a not-for-profit entity) that includes that gain or loss.

e. If not separately presented on the face of the statement of financial position, the carrying amount(s) of the major classes of assets and liabilities included as part of a disposal group classified as held for sale. Any loss recognized on the disposal group classified as held for sale in accordance with paragraphs 360-10-35-37 through 35-45 and 360-10-40-5 shall not be allocated to the major classes of assets and liabilities of the disposal group.

f. If applicable, the segment in which the long-lived asset (disposal group) is reported under Topic 280 on segment reporting.

360-10-50-3A

In addition to the disclosures in paragraph 360-10-50-3, if a long-lived asset (disposal group) includes an individually significant **component of an entity** that either has been disposed of or is classified as held for sale (see paragraph 360-10-45-9) and does not qualify for presentation and disclosure as a discontinued operation (see Subtopic 205-20 on discontinued operations), a **public business entity** and a **not-for-profit entity** that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market shall disclose the information in (a). All other entities shall disclose the information in (b).

a. For a public business entity and a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market, both of the following:

  1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity) calculated in accordance with paragraphs 205-20-45-6 through 45-9
  2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale and for all prior periods that are presented in the statement where net income is reported (or statement of activities for a not-for-profit entity).

b. For all other entities, both of the following:

  1. The pretax profit or loss (or change in net assets for a not-for-profit entity) of the individually significant component of an entity for the period in which it is disposed of or is classified as held for sale calculated in accordance with paragraphs 205-20-45-6 through 45-9
  2. If the individually significant component of an entity includes a noncontrolling interest, the pretax profit or loss (or change in net assets for a not-for-profit entity) attributable to the parent for the period in which it is disposed of or is classified as held for sale.

The presentation and disclosure requirements for long-lived assets disposed of or classified as held for sale differ depending on whether the disposal is a significant component of an entity. ASC 360-10 requires disclosures for the disposal of individually significant components that do not qualify for presentation as discontinued operations and that have either been disposed of or are classified as held for sale. The guidance does not define individually significant disposals. Therefore, companies will be required to apply judgment in making this determination.

For public business entities and not-for-profit entities that have issued or are conduit bond obligors for securities that are traded, listed or quoted on an exchange or an over-the-counter market, these disclosures are required for the period in which the individually significant component is disposed of or is classified as held for sale and for all periods presented in the statement where net income is presented (or statement of activities for a not-for-profit entity). For other entities, these disclosures are required only for the period in which the component is disposed of or is classified as held for sale.

ASC 360-10-55-18A includes a flowchart that provides an overview of the disclosures required for disposals of long-lived assets and individually significant components that do not qualify for reporting as a discontinued operation.

ASC 205-20 requires additional disclosures for long-lived assets disposed of or classified as held for sale that qualify as a discontinued operation.

A gain or loss recognized on the sale of a long-lived asset (disposal group) that does not qualify as a discontinued operation or for a long-lived asset (disposal group) classified as held for sale that does not qualify as a discontinued operation should be included in income from continuing operations before income taxes in the income statement. If a subtotal such as income from operations is presented, it should include the amounts of the gains or losses recognized upon the sale of a long-lived asset (disposal group) that does not qualify as a discontinued operation in accordance with ASC 360-10-45-5. Because those gains or losses recognized upon a sale and impairment losses recognized for a long-lived asset (asset group) to be held and used are required to be included in income from operations if such a subtotal is presented, we believe gains or losses recognized for a long-lived asset (disposal group) classified as held for sale that does not qualify as a discontinued operation also should be included in income from operations if such a subtotal is presented.

5 Industry-specific considerations

5.1 Real estate

5.1.1 Real estate developers

The guidance in ASC 970-360-35-3 states that the provisions of Subtopic 360-10 relating to assets to be held and used should be followed by real estate projects that are:

- Held for development
- Held for development in the future (e.g., an unused building to be renovated)
- Currently under development
- Substantially completed but will be held and used (e.g., for rental)

Section 2.3.2.5 provides guidance on the cash flows to be included in a recoverability test for a long-lived asset (group) that is under development.

The guidance in ASC 970-360-35-3 also states that the provisions of ASC 360-10 relating to assets that are held for sale should be followed by real estate projects that are substantially completed but will be sold.

5.1.2 Real estate held for investment

In many instances, the financing for real estate projects may require a balloon principal payment, which, when due, necessitates a refinancing or restructuring. In cases where the entity's ability to refinance or restructure is uncertain, management must evaluate what is the appropriate period to estimate cash flows. In general, if management believes it is reasonably possible that they will be able to refinance or restructure the debt (e.g., the entity has refinanced similar projects in the past, the asset has sufficient loan-to-value ratio), using the asset's remaining useful life would be appropriate. Conversely, if management believes that it is probable that they will not be able to refinance or restructure the debt and that it is likely the property will have to be sold to satisfy the debt, the period used for the cash flow estimate would not extend beyond the maturity date of the debt.

Illustration 5-1: Effect of debt maturity on the test for recoverability

Assume that on 1 January 20X2, PHP, Inc. entered into a seven-year non-recourse mortgage with a bank to purchase an office building. The cost to purchase the building was $32 million and the amount financed under the mortgage was $25 million. The agreement called for interest-only payments through 31 December 20X8, at which time the principal amount of the loan is due. Although the property generated cash flows for the first five years that were adequate to meet the debt service requirements (i.e., interest payments), the debt likely will need to be restructured on its due date. At 31 December 20X6, the building had a carrying amount of $27 million and a fair value of $23 million.

Because operating results were poorer than expected and the market value of the building has decreased, PHP performs an impairment evaluation as of 31 December 20X6. PHP estimates that if it were to continue to operate the building for the remaining depreciable life of the building of 27 years, the undiscounted cash flows would exceed the carrying amount of the asset and no impairment loss would be necessary. However, if PHP cannot restructure or refinance the loan to extend the maturity date of the non-recourse debt, the period used for the cash flow estimate is shortened to include only the cash flows for the two years until debt maturity. If the cash flows over the next two years will not recover the cost of the building, an impairment loss of $4 million will need to be recorded. In addition, any gain on extinguishment of debt cannot be recognized until an extinguishment or foreclosure actually occurs.

In this example, if management concludes that it is not probable that the property will be foreclosed at the maturity date because they have demonstrated the ability to restructure or refinance similar loans in the past, no impairment loss needs to be recorded.

5.2 Oil and gas

This section discusses issues specific to proved oil and gas properties accounted for using the successful efforts method of accounting under ASC 932. These issues include the appropriate grouping of assets, cash flows used to test oil and gas properties for recoverability, estimating fair value, reserve estimates revisions and impairment, asset retirement obligations and impairment of oil and gas properties and accounting for oil and gas properties held for sale.

Separate guidance applies to the evaluation of unproved properties in ASC 932-360 and exploratory wells in ASC 932-360-35-13 and ASC 932-360-35-16 to 35-21.

Full cost method considerations. ASC 932 and ASC 360-10 do not apply to proved or unproved oil and gas properties accounted for using the full cost method of accounting. Instead, the total costs capitalized into each full cost pool are limited to a ceiling based on a specific calculation prescribed by the SEC. Amounts in excess of that ceiling are written off, similar to an impairment. The accounting requirements for those oil and gas properties are found in Rule 4-10 of Regulation S-X, *Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975*. Staff Accounting Bulletin Topic 12.D., *Oil and Gas Producing Activities — Application of the Full Cost Method of Accounting*, provides additional guidance on specific issues affecting this analysis.

5.2.1 Grouping of assets

Oil and gas entities that follow the successful efforts method of accounting for oil and gas properties should use the same grouping requirements as those followed by all other entities (i.e., they should be grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets). As in ASC 360-10, ASC 932 does not specify how oil and gas properties should be grouped for the purposes of assessing impairment. However, we believe that a presumption exists that the costs of wells, related equipment and related proved oil and gas properties should be grouped in the same manner as those costs are grouped for amortization purposes (i.e., either on a property-by-property basis or on the basis of some reasonable aggregation of properties with a common geological structural feature or stratigraphic condition, such as a reservoir or field). The grouping of oil and gas properties based on the manner in which they are managed or on a country-by-country basis is not appropriate.

5.2.2 Cash flows used to test oil and gas properties for recoverability

Oil and gas entities are required to estimate future cash flows relating to proved oil and gas reserves to meet existing disclosure requirements under ASC 932-235. While this information may be used to make a preliminary assessment of whether the related assets may be impaired, ASC 932-235 does not impose specific limits on the assumptions entities that follow the successful efforts method use to generate estimates of future cash flows for the purposes of assessing oil and gas properties for recoverability. Although the ASC 932-235 information may be a basis for concluding that an impairment indicator exists, using such information in a recoverability test (i.e., undiscounted cash flows) or a fair value estimation (e.g., discounted cash flows) would be inappropriate as the objectives of ASC 932-235 and ASC 360-10 are different.

Whenever events or circumstances indicate that the carrying amount of oil and gas properties may not be recoverable (i.e., impairment indicators exist), they must be tested for recoverability using undiscounted future cash flows (i.e., a recoverability test pursuant to ASC 360-10). Those estimates of future cash flows would incorporate the entity's own assumptions about its use of the asset and future commodity prices and should consider all available evidence. The assumptions used in developing those estimates should be reasonable in relation to the assumptions used to develop other information used by the entity for other purposes. For example, the assumptions used should be consistent with the entity's internal budgets, projections used to determine whether some or all of the entity's deferred tax assets (such as those recognized for net operating losses) will be realized, projections used to estimate when certain properties or partnerships will pay-out and information communicated to the entity's board of directors and others. The entity also should consider its existing plans with regard to reserve development in estimating future cash flows for the purposes of testing for recoverability. For example, if the entity does not have plans (or the ability) to develop certain of its proved undeveloped reserves, then future cash flows associated with the production of those reserves would not be included in the recoverability test (note that this would also raise a question as to whether the oil and gas reserves are appropriately considered proved undeveloped reserves). When an asset group includes both proved and unproved reserves, all projected costs related to the development of the unproved reserves are generally included in the recoverability test. However, we believe that projected costs related to the development of unproved reserves should not be included in the recoverability test if the entity does not have plans (or the ability) to develop these reserves.

Entities also must ensure that in developing estimates of future cash flows that they properly match future development costs against future net revenues associated with proved undeveloped reserves. For example, if a development well is in progress at period-end and costs incurred to date are $2 million and the well is expected to cost a total of $5 million, then the remaining $3 million of costs would be included in the estimate of future cash flows used to test the related oil and gas property for recoverability.

5.2.3 Estimating fair value

If the carrying amount of an oil and gas property accounted for using the successful efforts method is not recoverable, then an impairment loss would be recognized to the extent the carrying amount of the property exceeds its fair value (i.e., if the recoverability test is failed, the asset is written down to its fair value). See section 2.4 for information on determining fair value.

As discussed in section 2.4.2, if discounted future cash flows is the valuation technique used to estimate fair value, such cash flows will not necessarily be the same as the future cash flows used to test the asset for recoverability because those cash flows incorporate the entity's own assumptions about the use of the asset.

Illustration 5-2: Differences in the assumptions used in the test for recoverability and estimate of fair value

An oil and gas entity may have a pipeline subsidiary that enables it to transport oil and/or gas produced at certain of its oil and gas properties to a market hub. Assume that in this specific example, the oil and gas entity is able to receive more favorable pricing (after transportation costs) than it would if it were required to utilize a third-party transporter or sell the product to a third-party marketer. In this example, the recoverability test would include the assumption that the entity would be able to receive the benefit of transporting its own product to market whereas in estimating the fair value of the oil and gas properties, the entity would assume that the services of a third-party transporter would be used or that the product would be sold to a third-party marketer.

If information about the assumptions market participants would use in estimating fair value is not available without undue cost and effort, the entity may use its own assumptions as a starting point in developing market participant assumptions and apply reasonable judgment in analyzing whether such assumptions are representative of market participant assumptions. In all cases, estimates of future cash flows shall be based on reasonable and supportable assumptions and shall consider all available evidence. See our FRD, ***Fair value measurement***, for further discussion of the use of an entity's own assumptions as opposed to those of market participants.

5.2.4 Reserve estimate revisions and impairment

If an oil and gas entity that uses the successful efforts method of accounting for oil and gas properties revises its reserves estimates, it should evaluate whether resulting changes are an impairment indicator. Even if reported proved reserves do not change, changes in the amounts or probabilities of other reserve types (probable and possible) may indicate that certain capitalized costs associated with oil and gas reserves are not recoverable. Probable and possible reserves may be used in impairment analyses if they are part of the asset group being assessed, such as for a major development project that is expected to service both proved and probable reserves. Probable and possible reserves would be subject to appropriate risk-weightings. These may also be separate indicators of impairment for costs directly associated with unproved properties themselves, under ASC 932-360-35-11.

As indicated in ASC 932-360-35-6, amortization rates must be revised whenever there is an indication of the need for revision but at least once a year. Consistent with ASC 360-10-35-22, which requires entities to review the remaining useful life of assets that are being tested for recoverability, we believe that whenever an indicator of impairment is present, there is a need to revisit the amortization rates of oil and gas properties (specifically, estimates of proved oil and gas reserves). This is because when an indicator of impairment is present, there often has been a material change in estimates of proved oil and gas reserves either due to price changes or other events or circumstances affecting the recoverability of the costs of the oil and gas properties.

Entities should use only proved oil and gas reserves meeting the SEC's guidelines included in ASC 932-10-S99-1 for the purposes of computing amortization, including the requirement to use a 12-month average price.

5.2.5 Asset retirement obligations and impairment of oil and gas properties

Comprehensive guidance related to the accounting for asset retirement obligations (e.g., future dismantlement and abandonment costs) is in ASC 410-20, which requires entities to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost by increasing the carrying amount of the related asset. Over time, the liability is accreted to its present value and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. See section 2.3.2.7, *Effect of asset retirement obligations on cash flow estimates*, in addition to our FRD, ***Asset retirement obligations***, for more information.

Oil and gas entities that use the successful efforts method of accounting for oil and gas properties should include in the recoverability test cash outflows associated with unrecorded asset retirement obligations, such as those associated with the future development of proved undeveloped reserves, that relate to cash inflows included in the recoverability test. Amounts already recognized as asset retirement obligations should be excluded from the analysis, as the associated asset retirement costs are already included in the carrying value of the assets.

5.2.6 Oil and gas properties held for sale

Oil and gas properties accounted for using the successful efforts method of accounting should be classified as held for sale only when all the held for sale criteria are met. Because an oil and gas property is a depleting asset, its fair value decreases with production. Thus, even though amortization technically no longer will be recognized in accordance with ASC 360-10, losses resulting from the decrease in fair value attributable to production should be recognized as they occur (along with any other changes in fair value; for example, changes in commodity prices that affect the fair value of the property). Gains for subsequent increases in fair value may only be recognized to the extent of the cumulative loss previously recognized (for an initial write-down to fair value less cost to sell and any subsequent write-downs).

5.3 Regulated operations

The provisions of ASC 360-10 for long-lived assets to be held and used apply to long-lived assets of a regulated entity, except those assets that (1) meet the criteria of ASC 980-340-25-1 and (2) abandoned plants and disallowed costs of recently completed plants that are covered by ASC 980-360-35.

Generally, the criteria in ASC 980-340-25-1 provide that rate-regulated enterprises capitalize certain costs that would otherwise be expensed if the rate actions of a regulator provide reasonable assurance that such costs are recoverable (referred to as "regulatory assets"). A regulatory asset is written off as a charge to earnings if and when that asset no longer meets the requirements established by ASC 980-340-25-1. Additionally, ASC 980 requires that when a regulator excludes all or a part of a cost from allowable costs (i.e., reduces or eliminates a regulatory asset), the carrying amount of any asset recognized by ASC 980-340-25-1 should be reduced to the extent of the excluded cost, even if the regulator allows the enterprise to earn a rate of return on the remaining regulatory assets.

With regard to the impairment of costs related to abandoned plants and disallowed costs of recently completed plants, the provisions of ASC 980-360 still apply.

5.4 Not-for-profit organizations

The general provisions of ASC 360-10 apply to not-for-profit organizations. The following discusses special considerations that not-for-profit organizations may need to consider when applying those provisions.

5.4.1 Assets to be held and used

ASC 958-360-35-8 notes that not-for-profit organizations that rely on contributions to maintain their long-lived assets may need to consider those contributions in determining the appropriate cash flows to compare with the carrying amount of a long-lived asset (group). For example, in performing a recoverability test, if contributions without donor restrictions are used to supplement cash flows from admission fees in the administration of a museum, the cash flows from the contributions would be included.

5.4.2 Presentation

Impairment losses recognized on long-lived assets to be held and used and the gain or loss recognized on the sale of a long-lived asset that is not a discontinued operation must be included in the subtotal of income from operations (or another intermediate measure of operations), if one is presented.

5.5 Mining assets

Mining assets include mineral rights and mineral properties. ASC 930-360-35 provides guidance on how the provisions of ASC 360-10 should be interpreted when entities evaluate mining assets for impairment. When a mining entity evaluates its mining assets for impairment, ASC 930-360 requires the entity to include the cash flows associated with value beyond proven and probable reserves and to consider the effects of anticipated fluctuations in the market price of minerals in estimates of future cash flows (both undiscounted and discounted).

ASC 930-360-35-2 indicates that estimates of the effects of anticipated fluctuations in the market price of minerals should be consistent with estimates of a market participant. Generally, an entity should consider all available information, including current prices, historical averages and forward pricing curves. Those marketplace assumptions typically should be consistent with an entity's operating plans and financial projections underlying other aspects of the impairment analysis (for example, amount and timing of production). Generally, it would be inappropriate for an entity to use a single factor, such as the current price or an historical average, as a surrogate for estimating future prices without considering other information that a market participant would consider.

A Abbreviations used in this publication

Abbreviation	FASB Accounting Standards Codification
ASC 205-20	FASB ASC Subtopic 205-20, *Discontinued Operations*
ASC 250	FASB ASC Topic 250, *Accounting Changes and Error Corrections*
ASC 275	FASB ASC Topic 275, *Risks and Uncertainties*
ASC 280	FASB ASC Topic 280, *Segment Reporting*
ASC 310	FASB ASC Topic 310, *Receivables*
ASC 330	FASB ASC Topic 330, *Inventory*
ASC 350	FASB ASC Topic 350, *Intangibles — Goodwill and Other*
ASC 360	FASB ASC Topic 360, *Property, Plant, and Equipment*
ASC 410-20	FASB ASC Subtopic 410-20, *Asset Retirement Obligations*
ASC 410-30	FASB ASC Subtopic 410-30, *Environmental Obligations*
ASC 420	FASB ASC Topic 420, *Exit or Disposal Cost Obligations*
ASC 450	FASB ASC Topic 450, *Contingencies*
ASC 450-20	FASB ASC Subtopic 450-20, *Loss Contingencies*
ASC 505	FASB ASC Topic 505, *Equity*
ASC 606	FASB ASC Topic 606, *Revenue from Contracts with Customers*
ASC 610-20	FASB ASC Subtopic 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets*
ASC 805	FASB ASC Topic 805, *Business Combinations*
ASC 810	FASB ASC Topic 810, *Consolidation*
ASC 820	FASB ASC Topic 820, *Fair Value Measurement*
ASC 830	FASB ASC Topic 830, *Foreign Currency Matters*
ASC 842	FASB ASC Topic 842, *Leases*
ASC 842-40	FASB ASC Topic 842-40, *Sale and Leaseback Transactions*
ASC 845	FASB ASC Topic 845, *Nonmonetary Transactions*
ASC 860	FASB ASC Topic 860, *Transfers and Servicing*
ASC 930	FASB ASC Topic 930, *Extractive Activities — Mining*
ASC 932	FASB ASC Topic 932, *Extractive Activities — Oil and Gas*
ASC 958	FASB ASC Topic 958, *Not-for-Profit Entities*
ASC 970	FASB ASC Topic 970, *Real Estate — General*
ASC 980	FASB ASC Topic 980, *Regulated Operations*
ASU 2016-02	Accounting Standards Update 2016-02, *Leases*
ASU 2016-13	Accounting Standards Update 2016-13, *Measurement of Credit Losses on Financial Instruments*

Abbreviation	Other Authoritative Standards
SAB Topic 5.Z.7	SEC Staff Accounting Bulletin Topic 5.Z.7, *Accounting for the Spin-off of a Subsidiary*

Abbreviation	Non-Authoritative Standards
CON 7	Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements*
Statement No. 144	FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*

B Glossary

Excerpt from Accounting Standards Codification

Activities

The term activities is to be construed broadly. It encompasses physical construction of the asset. In addition, it includes all the steps required to prepare the asset for its intended use. For example, it includes administrative and technical activities during the preconstruction stage, such as the development of plans or the process of obtaining permits from governmental authorities. It also includes activities undertaken after construction has begun in order to overcome unforeseen obstacles, such as technical problems, labor disputes, or litigation.

Asset Group

An asset group is the unit of accounting for a long-lived asset or assets to be held and used, which represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities.

Business

Paragraphs **805-10-55-3A through 55-6** and **805-10-55-8 through 55-9** define what is considered a business.

Component of an Entity

A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity. A component of an entity may be a reportable segment or an operating segment, a reporting unit, a subsidiary, or an asset group.

Contract

An agreement between two or more parties that creates enforceable rights and obligations.

Customer

A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

Disposal Group

A disposal group for a long-lived asset or assets to be disposed of by sale or otherwise represents assets to be disposed of together as a group in a single transaction and liabilities directly associated with those assets that will be transferred in the transaction. A disposal group may include a discontinued operation along with other assets and liabilities that are not part of the discontinued operation.

Firm Purchase Commitment

A firm purchase commitment is an agreement with an unrelated party, binding on both parties and usually legally enforceable, that meets both of the following conditions:

a. It specifies all significant terms, including the price and timing of the transaction.

b. It includes a disincentive for nonperformance that is sufficiently large to make performance probable.

Impairment

Impairment is the condition that exists when the carrying amount of a long-lived asset (asset group) exceeds its fair value.

Lease

An agreement conveying the right to use property, plant, or equipment (land and/or depreciable assets) usually for a stated period of time.

Note: The following definition is Pending Content; see Transition Guidance in 842-10-65-1.

A contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration.

Lease Term

The fixed noncancelable lease term plus all of the following, except as noted in the following paragraph:

a. All periods, if any, covered by bargain renewal options.

b. All periods, if any, for which failure to renew the lease imposes a penalty on the lessee in such amount that a renewal appears, at lease inception, to be reasonably assured

c. All periods, if any, covered by ordinary renewal options during which any of the following conditions exist:

    1. A guarantee by the lessee of the lessor's debt directly or indirectly related to the leased property is expected to be in effect.

    2. A loan from the lessee to the lessor directly or indirectly related to the leased property is expected to be outstanding.

d. All periods, if any, covered by ordinary renewal options preceding the date as of which a bargain purchase option is exercisable

e. All periods, if any, representing renewals or extensions of the lease at the lessor's option.

The lease term shall not be assumed to extend beyond the date a bargain purchase option becomes exercisable.

Note: The following definition is Pending Content; see Transition Guidance in 842-10-65-1.

The noncancellable period for which a lessee has the right to use an underlying asset, together with all of the following:

a. Periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option

b. Periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option

c. Periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor.

Lessee (following the adoption of ASU 2016-02)

An entity that enters into a contract to obtain the right to use an underlying asset for a period of time in exchange for consideration.

Lessor

Note: The following definition is Pending Content; see Transition Guidance in 842-10-65-1.

An entity that enters into a contract to provide the right to use an underlying asset for a period of time in exchange for consideration.

Net Realizable Value

Estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

Nonprofit Activity

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing benefits, other than goods or services at a profit or profit equivalent, as a fulfillment of an entity's purpose or mission (for example, goods or services to beneficiaries, customers, or members). As with a not-for-profit entity, a nonprofit activity possesses characteristics that distinguish it from a business or a for-profit business entity.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Operating Segment

A component of a public entity. See Section 280-10-50 for additional guidance on the definition of an operating segment.

Probable

The future event or events are likely to occur.

Public Business Entity

A public business entity is a business entity meeting any one of the criteria below. Neither a not-for-profit entity nor an employee benefit plan is a business entity.

a. It is required by the U.S. Securities and Exchange Commission (SEC) to file or furnish financial statements, or does file or furnish financial statements (including voluntary filers), with the SEC (including other entities whose financial statements or financial information are required to be or are included in a filing).

b. It is required by the Securities Exchange Act of 1934 (the Act), as amended, or rules or regulations promulgated under the Act, to file or furnish financial statements with a regulatory agency other than the SEC.

c. It is required to file or furnish financial statements with a foreign or domestic regulatory agency in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer.

d. It has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market.

e. It has one or more securities that are not subject to contractual restrictions on transfer, and it is required by law, contract, or regulation to prepare U.S. GAAP financial statements (including notes) and make them publicly available on a periodic basis (for example, interim or annual periods). An entity must meet both of these conditions to meet this criterion.

An entity may meet the definition of a public business entity solely because its financial statements or financial information is included in another entity's filing with the SEC. In that case, the entity is only a public business entity for purposes of financial statements that are filed or furnished with the SEC.

Reporting Unit

The level of reporting at which goodwill is tested for impairment. A reporting unit is an operating segment or one level below an operating segment (also known as a component).

Revenue

Inflows or other enhancements of assets of an entity or settlements of its liabilities (or a combination of both) from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

Right-of-Use Asset (following the adoption of ASU 2016-02)

An asset that represents a lessee's right to use an underlying asset for the lease term.

Security

A share, participation, or other interest in property or in an entity of the issuer or an obligation of the issuer that has all of the following characteristics:

a. It is either represented by an instrument issued in bearer or registered form or, if not represented by an instrument, is registered in books maintained to record transfers by or on behalf of the issuer.

b. It is of a type commonly dealt in on securities exchanges or markets or, when represented by an instrument, is commonly recognized in any area in which it is issued or dealt in as a medium for investment.

c. It either is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests, or obligations.

Underlying Asset

Note: The following definition is Pending Content; see Transition Guidance in 842-10-65-1.

An asset that is the subject of a lease for which a right to use that asset has been conveyed to a lessee. The underlying asset could be a physically distinct portion of a single asset.

C Index of ASC references in this publication

ASC paragraph	Section	Title
205-20-45-1A to 1C	3.1	Long-lived assets to be abandoned
205-20-45-1B	1.1	Introduction
205-20-45-1E	1.5.1	Held for sale criteria
205-20-45-1E	4.1	Recognition
205-20-45-1E	4.2.7	Newly acquired long-lived assets to be sold
205-20-45-3 to 45-5	3.1	Long-lived assets to be abandoned
205-20-45-3	4.3	Changes to a plan of sale
205-20-45-6 to 45-10	4.5	Presentation and disclosure
205-20-50-1(a)	4.1.2	Held for sale criteria met after the balance sheet date but before issuance of financial statements
250-10-45-17 to 45-20	2.2.1	Depreciation estimates
250-10-45-17 to 45-20	3.1	Long-lived assets to be abandoned
250-10-50-4	2.2.1	Depreciation estimates
250-10-50-4	3.1	Long-lived assets to be abandoned
275-10-50-8	2.8.1	Early warning disclosures
275-10-50-13	2.8.1	Early warning disclosures
280-10-50-10	3.3	SEC staff views — spin-off of a subsidiary
310-10-35-16 to 35-17	4.2.8	Accounting for foreclosed assets received in settlement of a receivable
310-10-35-22	4.2.8	Accounting for foreclosed assets received in settlement of a receivable
310-10-35-24	4.2.8	Accounting for foreclosed assets received in settlement of a receivable
310-10-35-32	4.2.8	Accounting for foreclosed assets received in settlement of a receivable
310-40-35-10	4.2.8	Accounting for foreclosed assets received in settlement of a receivable
310-40-40-5	4.2.8	Accounting for foreclosed assets received in settlement of a receivable
310-40-40-8A	4.2.8	Accounting for foreclosed assets received in settlement of a receivable
310-40-55-13 to 55-15	4.2.8	Accounting for foreclosed assets received in settlement of a receivable
326-20-35-2	4.2.8	Accounting for foreclosed assets received in settlement of a receivable
326-20-35-4 to 35-5	4.2.8	Accounting for foreclosed assets received in settlement of a receivable

ASC paragraph	Section	Title
330-10-35	2.5	Allocation of an impairment loss
330-10-35	4.2.3.2	Disposal groups
350-20-35-31	2.3.1.4	Goodwill and other assets or liabilities in asset groups
350-20-40-1 to 40-7	4.1.3.1	Allocating goodwill to a disposal group
350-20-40-1 to 40-7	4.2	Measurement
350-20	2.3.1.3	Entity-wide asset groupings
350-30-35-1 to 35-5	2.2.1	Depreciation estimates
350-30-35-14	1.2	Scope
360-10-05-2	1.1	Introduction
360-10-05-4 to 05-6	1.1	Introduction
360-10-15-1 to 15-5	1.2	Scope
360-10-35-15 to 35-17	2.1	Overview
360-10-35-17 to 35-35	1.2	Scope
360-10-35-17	2.4.5.2	Expected present value technique
360-10-35-18 to 35-19	2.3.2.7	Effect of asset retirement obligations on cash flow estimates
360-10-35-18 to 35-19	2.3.2.8	Effect of environmental exit costs on cash flow estimates used in the recoverability test
360-10-35-20	2.6	New cost basis
360-10-35-21	2.2	Indicators of impairment — Step 1
360-10-35-22	2.2.1	Depreciation estimates
360-10-35-22	3.1	Long-lived assets to be abandoned
360-10-35-22	5.2.4	Reserve estimates revisions and impairment
360-10-35-23	2.3.1	Grouping long-lived assets to be held and used
360-10-35-24 to 35-25	2.3.1.3	Entity-wide asset groupings
360-10-35-26 to 35-27	2.3.1.4	Goodwill and other assets or liabilities in asset groups
360-10-35-27 to 35-28	2.5	Allocation of an impairment loss
360-10-35-28	2.3.1	Grouping long-lived assets to be held and used
360-10-35-28	2.5	Allocation of an impairment loss
360-10-35-29	2.3.1.1	Debt in asset groups
360-10-35-29 to 35-30	2.3.2	Estimates of future cash flows used to test a long-lived asset for recoverability

ASC paragraph	Section	Title
360-10-35-29 to 35-35	2.3.2.8	Effect of environmental exit costs on cash flow estimates used in the recoverability test
360-10-35-30	2.4.2	Cash flows used in the recoverability test versus those used to determine fair value
360-10-35-31 to 35-32	2.2.1	Depreciation estimates
360-10-35-31 to 35-32	2.3.2.3	Cash flow estimation period
360-10-35-33 to 35-34	2.1	Overview
360-10-35-33	2.3.2.4	Asset-related expenditures for a long-lived asset in use
360-10-35-33 to 35-35	2.3.2.5	Asset-related expenditures for a long-lived asset under development
360-10-35-36	2.4	Measuring an impairment — Step 3
360-10-35-36	2.4.5	Present value techniques
360-10-35-37 to 35-45	4.5	Presentation and disclosure
360-10-35-38 to 35-39	4.2	Measurement
360-10-35-38	4.2.7	Newly acquired long-lived assets to be sold
360-10-35-40	4.2.3.3	SEC staff views — recording impairment losses for disposal groups
360-10-35-40	4.2.4	Subsequent changes to fair value less cost to sell
360-10-35-43	4.2	Measurement
360-10-35-43	4.2.3.3	SEC staff views — recording impairment losses for disposal groups
360-10-35-43	4.2.7	Newly acquired long-lived assets to be sold
360-10-35-44	4.1	Recognition
360-10-35-44	4.1.1	Held for sale criteria
360-10-35-44 to 35-45	4.3	Changes to a plan of sale
360-10-35-47 to 35-49	3.1	Long-lived assets to be abandoned
360-10-40-4	3.2	Long-lived asset to be exchanged or to be distributed to owners in a spin-off
360-10-40-5	4.2.4	Subsequent changes to fair value less cost to sell
360-10-40-5	4.5	Presentation and disclosure
360-10-45-4	2.8	Reporting and disclosure
360-10-45-5 to 45-9	4.3	Changes to a plan of sale
360-10-45-5	4.5	Presentation and disclosure
360-10-45-7	4.1.1	Held for sale criteria
360-10-45-9 to 45-11	4.1	Recognition
360-10-45-9	4.1.1	Held for sale criteria

ASC paragraph	Section	Title
360-10-45-9	4.1.2	Held for sale criteria met after the balance sheet date but before issuance of financial statements
360-10-45-9	4.2.7	Newly acquired long-lived assets to be sold
360-10-45-9	4.5	Presentation and disclosure
360-10-45-11	4.1	Recognition
360-10-45-11 to 45-12	4.1.1	Held for sale criteria
360-10-45-12	4.2.7	Newly acquired long-lived assets to be sold
360-10-45-13	4.1.2	Held for sale criteria met after the balance sheet date but before issuance of financial statements
360-10-45-14	4.5	Presentation and disclosure
360-10-45-15	3.1	Long-lived assets to be abandoned
360-10-50-2	2.8	Reporting and disclosure
360-10-50-3	4.5	Presentation and disclosure
360-10-50-3A	4.5	Presentation and disclosure
360-10-55-1 to 55-18	2.3.2.8	Effect of environmental exit costs on cash flow estimates used in the recoverability test
360-10-55-7 to 55-18	2.3.2.5	Asset-related expenditures for a long-lived asset under development
360-10-55-18A	1.1	Introduction
360-10-55-18A	4.5	Presentation and disclosure
360-10-55-20 to 55-22	2.5	Allocation of an impairment loss
360-10-55-23	2.3.2	Estimates of future cash flows used to test a long-lived asset for recoverability
360-10-55-23 to 55-29	2.3.2.2	Probability-weighted and best estimate cash flow approaches
360-10-55-23 to 55-32	2.4.5.2	Expected present value technique
360-10-55-33 to 55-34	2.3.2.5	Asset-related expenditures for a long-lived asset under development
360-10-55-35 to 55-36	2.3.1	Grouping long-lived assets to be held and used
360-10-55-35	2.3.1.3	Entity-wide asset groupings
360-10-55-37 to 55-41	4.1	Recognition
360-10-55-38	4.1.1	Held for sale criteria
360-10-55-40	4.1.1	Held for sale criteria
360-10-55-42 to 55-43	4.1.1	Held for sale criteria
360-10-55-43	4.1	Recognition
360-10-55-44 to 55-49	4.1.1	Held for sale criteria

ASC paragraph	Section	Title
360-10-55-47	4.1.1	Held for sale criteria
360-10-55-49	4.1.1	Held for sale criteria
450-20-20	4.1.1	Held for sale criteria
505-60-S99-1	3.3	SEC staff views — spin-off of a subsidiary
805-20-30-22	4.2.7	Newly acquired long-lived assets to be sold
820-10-35-11A	2.4.3	Unit of valuation and unit of account
820-10-55-4 to 55-20	2.4.5	Present value techniques
820-10-55-11	2.4.5.1	Discount rate adjustment technique
820-10-55-100	2.8	Reporting and disclosure
830-30-40-1 to 40-4	4.4	Cumulative translation adjustments and other items of accumulated other comprehensive income in impairment of disposal groups
830-30-45-13 to 45-15	4.4	Cumulative translation adjustments and other items of accumulated other comprehensive income in impairment of disposal groups
842-10-15-17	2.7.3	Abandonment of the right-of-use asset
842-10-35-1	2.7.3	Abandonment of the right-of-use asset
842-20-25-7	2.7.3	Abandonment of the right-of-use asset
842-20-35-9	2.7	Impairment of right-of-use assets in operating leases (after the adoption of ASC 842)
842-20-35-10	2.7.3	Abandonment of the right-of-use asset
930-360-35-2	5.5	Mining assets
932-10-S99-1	5.2.4	Reserve estimates revisions and impairment
932-360-35-6	5.2.4	Reserve estimates revisions and impairment
932-360-35-11	5.2.4	Reserve estimates revisions and impairment
932-360-35-13	5.2	Oil and gas
932-360-35-16 to 35-21	5.2	Oil and gas
958-220-45-11	2.8	Reporting and disclosure
958-360-35-8	5.4.1	Assets to be held and used
970-360-35-3	5.1.1	Real estate developers
980-340-25-1	5.3	Regulated operations
980-360-35	5.3	Regulated operations
985-20	1.2	Scope

D Summary of important changes

The following highlights the topics for which substantive updates have been made in recent editions of this publication. Other non-substantive or clarifying changes are not listed.

Section 2 : Impairment of right-of-use assets (after the adoption of ASC 842)

- Section 2.7 was updated to clarify the considerations for evaluating whether a lessee's asset group has changed. (May 2023)

Section 4 : Long-lived assets to be disposed of by sale

- Section 4.4 was updated to address how to evaluate other items included in accumulated other comprehensive income in a disposal group for impairment. (September 2022)

Disposal groups

- Section 4.2.3.2 was updated to address how to evaluate impairments when a parent entity intends to sell a subsidiary that meets the definition of a disposal group, and the subsidiary issues separate financial statements. (May 2023)

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2023 Ernst & Young LLP.
All Rights Reserved.

SCORE no. BB1887
(Revised December 2023)

This and many of the publications produced by our US Professional Practice Group, are available free on AccountingLink at ey.com/en_us/assurance/accountinglink.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.