RIVERON

PREPARE FOR CHANGE

COVID-19 IMPAIRMENT GUIDE

A comprehensive review of impact areas, considerations, and testing approach

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Impact Areas

GOODWILL

ASC Guidance References	Considerations	Impairment Testing Process
ASC 350-20-35-2 Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. The fair value of goodwill can be measured only as a residual and cannot be measured directly. Therefore, this Subtopic includes a methodology to determine an amount that achieves a reasonable estimate of the value of goodwill for purposes of measuring an impairment loss. That estimate is referred to as the implied fair value of goodwill. **ASC 350-20-35-3** An entity may first assess qualitative factors, as described in paragraphs 350-20-35-3A through 35-3G, to determine whether it is necessary to perform the two-step goodwill impairment test discussed in paragraphs 350-20-35-4 through 35-19. If determined to be necessary, the two-step impairment test shall be used to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any). **ASC 350-20-35-3C** ▸ Macroeconomic conditions, such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets. ▸ Industry and market considerations, such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (consider in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development. ▸ Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows. ▸ Overall financial performance, such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods. ▸ Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation. ▸ Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing of all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit. ▸ If applicable, a sustained decrease in share price (consider in both absolute terms and relative to peers)	ASC 350 requires companies to test goodwill for impairment annually unless certain triggering events occur that may have a significant impact on the fair value of goodwill. In light of the recent COVID-19 pandemic that has caused significant disruption and market decline across all industries, companies should consider whether the financial impacts of the pandemic might trigger impairment. Given the widespread impact of COVID-19, it is likely considered a triggering event in almost all industries. The pandemic has caused supply chain disruption, decreased demand and access to many products, reductions in cash flow, and general market decline and uncertainty across the entire globe. All of these factors, among others, have forced businesses to rethink budgets, forecasts, and other key assumptions that could impact the fair value assessment of many assets, including goodwill. As detailed in the previous paragraph, the triggering events being caused by the COVID-19 pandemic will impact the fair value of many assets, not just goodwill. As such, entities should carefully consider if the assumptions and estimates used in their analysis of goodwill are consistent with those used in the impairment analysis related to all other assets. If it is determined that a triggering event has led to an impairment loss, companies should disclose all facts and circumstances leading to impairment. **Riveron Insight:** Given the uncertainty surrounding the length of the pandemic as well as the extent to which the global economy will be impacted, careful thought must be applied when calculating fair value. If carrying value exceeds fair value companies need to be certain they are considering the long-term impacts of the current landscape in their fair value analysis, in an effort to avoid impairing Goodwill for numerous consecutive quarters in 2020.	**Step 0** – High level assessment of fair value vs. carrying value (i.e. triggering events) a. Use the most recent calculation of a reporting unit's fair value as a starting point for the qualitative assessment i. Consider the most recent time you proceeded to Step 1. Generally, the more time that elapses between calculating the fair value of a reporting unit, the more difficult it is to perform a high-level assessment. b. As the high-level assessment requires significant judgment, all qualitative considerations assessed should be documented for each reporting unit and whether it is a positive, negative, or neutral indicator and how much weight is given to it (high, medium, low) c. If reporting unit fair value is more likely than not less than its carrying amount, proceed to Step 1 Per ASU 2011-08, many nonpublic entities have elected to only perform Step 0 for their goodwill impairment testing. It may no longer be appropriate to only perform step 0 given the current market conditions. The markets response to the COVID-19 pandemic is likely creating quantitative triggering events that most companies should consider, therefore warranting the performance of Step 1. Reliance strictly on a qualitative assessment may not be valuable at this time. **Note:** In almost all circumstances companies should expect to complete the Step 1 analysis in the current environment, unless your business is strongly counter-cyclical or has not revised forecasts downward. **Step 1** – Assess if calculated reporting unit fair value is less than carrying value a. If calculated reporting unit fair value is less than it's carrying amount, proceed to Step 2 b. Note – If you have adopted ASC 2017-04, record an impairment loss based on the difference between fair value and carrying value within this step. **Note:** Companies should test long lived assets for impairment prior to completing Step 1 above to ensure the accurate carrying value is used in the analysis. **Step 2** – Compare implied fair value to carrying value to calculate loss a. Test the long-lived asset/asset group for recoverability b. Implied fair value is calculated by deducting the fair value of all net assets of the reporting unit from its fair value. The remaining fair value of the reporting unit after assigned fair values to all the assets and liabilities represents the implied fair value of the goodwill for the reporting unit. c. If implied fair value is less than carrying value, record impairment loss **Note:** This step is not required for public companies for period beginning after December 15, 2019 and December 15, 2022 for all other entities (ASU 2017-04).

INDEFINITE LIVED INTANGIBLES OTHER THAN GOODWILL

ASC Guidance References

ASC 350-30-35-18
An intangible asset not subject to amortization shall be tested for impairment annually or more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

ASC 350-30-35-18B
In assessing whether it is more likely than not that an indefinite-lived intangible asset is impaired, an entity shall assess all relevant events and circumstances that could affect the significant inputs used to determine the fair value of the indefinite-lived intangible asset. Examples of such events and circumstances include the following:

- Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on future expected earnings and cash flows that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- Financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- Legal, regulatory, contractual, political, business, or other factors, including asset-specific factors that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (in both absolute terms and relative to peers), or a change in the market for an entity's products or services due to the effects of obsolescence, demand, competition, or other economic factors (such as the stability of the industry, known technological advances, legislative action that results in an uncertain or changing business environment, and expected changes in distribution channels) that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.
- Macroeconomic conditions such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets that could affect significant inputs used to determine the fair value of the indefinite-lived intangible asset.

Considerations

Similar to the previous discussion on goodwill, ASC 350 also requires companies to test indefinite lived intangibles that are not subject to amortization for impairment when certain triggering events occur that may have a significant impact on the fair value or expected lives. Triggering events, such as those already outlined related to the COVID-19 pandemic, may require companies to not only reassess the fair value of their indefinite lived intangible assets, but also reassess whether the lives of these intangible are still considered to be indefinite. When companies determine that the life of an intangible asset is no longer indefinite, the intangibles should be tested for impairment in the same manner finite lives intangibles are tested for impairment.

Factors that could suggest that intangibles may no longer have indefinite lives are similar to those highlighted earlier for goodwill. Product lines or service offerings which certain intangibles are related to may have lost significant value or could be discontinued in light of recent market developments.

Riveron Insight: Some qualitative factors to consider when analyzing whether an indefinite life is still accurate in the current economic environment relates to where that asset sits within the operations of the company as a whole and also within the value chain of the applicable industry. Would the updated models and cash flow projections of the company tell a different story about the length of time the asset will be contributing to operations and cashflow?

Impairment Testing Process

Step 1 – Assess whether a triggering event has occurred that may suggest intangibles no longer have indefinite lives.

a. If it is determined that intangibles now have finite life, refer to steps on the impairment process for finite lived intangibles.
b. If the answer is no, impairment testing may still be required. See Step 2.

Step 2 - Determine Unit of Account

a. Determine whether separately recorded indefinite-lived intangible assets should be tested for impairment as one unit or separately. Considerations that suggest intangibles should be grouped together in one unit for impairment testing include:
   i. Are the intangibles operated as a single asset?
   ii. Were the intangibles acquired or developed together to create or enhance a single asset?
   iii. Were the intangibles acquired in the same transaction?
   iv. Does combining the intangibles together represent the highest and best use of the assets? Said differently, would separating the intangibles in a sale greatly reduce the overall value?
b. Some factors that could suggest that intangibles should not be combined as one unit of account:
   i. Do the intangibles generate separate cash flows independent of each other?
   ii. Would they likely be sold separately?
   iii. Do you have a plan to dispose of one or more intangibles separately?

Step 3 – High level qualitative assessment of fair value vs. carrying value

a. Use the most recent calculation of a unit of accounts' fair value as a starting point for the qualitative assessment
   i. Have factors or circumstances changed that impact the qualitative considerations included in a company's high-level assessment of whether carrying value exceeds fair value?

Note: Similar to goodwill, it may no longer be appropriate to only perform Step 3 given the current market conditions. Companies should consider performing quantitative assessments.

Step 4 – Assess if calculated unit of account fair value is less than carrying value

a. If calculated unit of account fair value is less than it's carrying amount, recorded impairment loss.
b. Note – Unlike goodwill, companies are not required to perform a recoverability test related to impairment of indefinite lived intangibles.

Note: The most common types of indefinite lived intangibles are tradenames and perpetual franchises. The most common valuation methodology for tradenames is the relief from royalty method which is derived using the appropriate royalty rate based on similar arms-length royalty or license transactions of similar intellectual property that the trade name relates to.

LONG LIVED ASSETS AND FINITE LIVED INTANGIBLES

ASC Guidance References

ASC 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.

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

Considerations

As previously discussed, the recent market downturn related to the COVID-19 pandemic has impacted nearly every industry and company, resulting in significant business interruptions that will contribute to decreased income generation and cash flows. Per ASC 360, long-lived assets are required to be tested for impairment when events or circumstances arise that may suggest that the carrying amount of the assets may not be fully recoverable. The carrying amount of long-lived assets and finite lived intangibles is representative of the amount of future cash flows anticipated to be generated through the use of such assets. The disruption caused by COVID-19 has presented material and sustained decline in the amount of cash flows that many companies are generating from their long-lived assets, which suggests potential impairment.

Long-lived assets and finite lived intangible assets subject to amortization should be carefully considered for potential impairment in light of the recent market conditions, as the expectation is that the pandemic has and will continue to have an impact on almost all industries.

Riveron Insight: The first step in the long-lived asset impairment test is determining the asset groups. Most companies recently went through a review of defined asset groups as part of their annual impairment procedures. With the impacts of the pandemic and a heightened focus on impairment and recoverability, companies should re-assess the accuracy and precision level of their asset group determination at March 31, 2020. Although annual impairment analyses were recently performed, the pandemic impacts call into question a company's operating structure and ability to generate cashflow at the asset level.

Impairment Testing Process

Step 1 – Determine asset groups

a. ASC Definition: 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.
b. Determining which long-lived assets belong in an asset group together requires a significant amount of judgement. Some indicators include:
   i. Interdependency of revenues
   ii. Shared cost structures

Step 2 – Identify triggering events

a. Consider if triggering events have occurred that would indicate the carrying amount of an asset group may not be recoverable.
   i. Refer to ASC 360-10-35-21 for some examples of potential triggering events.
   ii. Entities need to also consider any key operational indicators that are specific to their business that may suggest impairment.

Step 3 – Recoverability test

a. Compare the net carrying value of the asset group to the undiscounted cash flows (generated from the use and eventual disposition of the group)
   i. Cash flows used should be consistent with amounts used in budgets, projections, etc.
   ii. Key assumption such as price and volume levels should consider changes in the market
   iii. Cash Flows include:
      - All cash inflows from the use of the asset group over its remaining useful life, based on existing service potential
      - Any cash outflows necessary to obtain the projected cash inflows
      - Cash inflows and outflows associated with the disposition, including selling costs, of the asset group that would typically represent the salvage or residual value
b. For Right of Use lease assets, elect to either include or exclude both the carrying amount of operating lease liabilities in the asset group and the associated operating lease payments in the undiscounted cash flows
c. If assets are not recoverable (i.e. net carrying value > undiscounted cash flows), record impairment loss

Note: If net carrying value < undiscounted cash flows, no impairment required even if the net carrying value exceeds the fair value.

LEASES

ASC Guidance References	Considerations	Impairment Testing Process
ASC 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. **ASC 842-30-35-3** A lessor shall determine impairment related to the net investment in the lease and shall recognize any impairment in accordance with Topic 310 on receivables (as described in paragraphs 310-10-35-16 through 35-30). When determining the loss allowance for a net investment in the lease, a lessor shall take into consideration the collateral relating to the net investment in the lease. The collateral relating to the net investment in the lease represents the cash flows that the lessor would expect to receive (or derive) from the lease receivable and the unguaranteed residual asset during and following the end of the remaining lease term. **ASC 842-10-35-1** A lessee shall reassess the lease term or a lessee option to purchase the underlying asset only if and at the point in time that any of the following occurs: ▸ There is a significant event or a significant change in circumstances that is within the control of the lessee that directly affects whether the lessee is reasonably certain to exercise or not to exercise an option to extend or terminate the lease or to purchase the underlying asset. ▸ There is an event that is written into the contract that obliges the lessee to exercise (or not to exercise) an option to extend or terminate the lease. ▸ The lessee elects to exercise an option even though the entity had previously determined that the lessee was not reasonably certain to do so. ▸ The lessee elects not to exercise an option even though the entity had previously determined that the lessee was reasonably certain to do so.	As a result of the COVID-19 outbreak, right-of-use (ROU) assets may be impaired if the asset groups to which they belong are impaired. As noted in the long-lived asset impairment discussion, ROU assets should be tested for impairment under ASC 360 impairment guidance. The impairment testing for long-lived assets is triggered when certain factors are present that indicate that the carrying value of an asset or asset group may not be recoverable. Companies will need to analyze the estimated impact of the outbreak over an extended period of time, not just for the current period, in order to determine if an impairment test is required. In regards to lease accounting, impairment may not be the only accounting issue companies must consider. An impairment triggering event may or may not also trigger a lease reassessment under ASC 842. Certain changes in market conditions and business strategies could impact the assumptions that were made when originally recognizing a ROU asset. Under ASC 842, a reassessment triggering event must be a significant event or change in circumstance within the lessee's control. A change in market-based factors does not, in isolation, trigger a reassessment of the lease term or likelihood of lessee purchase option exercise. However, a lessee may take further action by choice in response to the impairment trigger caused by COVID-19 that might trigger a lease reassessment due to a business decision made by the Company. For example, if a lessee determined that they were reasonably likely to exercise a renewal option on the lease of a piece of equipment prior to COVID-19, they would have included that renewal term in the lease term. As a result of the strain on operations that COVID-19 is presenting on the business, the Company may now determine that there is little chance they will exercise the renewal, thereby modifying the lease term. In addition, if leases are renegotiated as a means to preserve near term cashflows, that change would need to analyzed from the perspective of the lease modification guidance. **Riveron Insight:** Given the impact that COVID-19 has had on retailers, restaurants, the hospitality industry and a variety of companies with large retail footprints; there will a pointed focus during the first quarter 2020 and beyond to take a hard look at existing ROU assets and their related value. Companies should also consider if they are positioned within the value chain of the aforementioned industries and what impacts that will have on longer term cash flow forecasting.	Refer to the impairment testing under ASC 360 or ASC 310, as applicable. If an entity determines that it is likely that a lease modification has occurred, refer to the lease subsequent measurement guidance outlined under ASC 842-10-35. ROU assets should be included within the appropriate asset group and assessed for impairment within the overall group. This introduces complexities surrounding the lease term when it is not explicitly stated in an agreement and the contract is considered evergreen or perpetual. Careful consideration to a company's overall operations and future strategy should be applied given likely changes to both the current and future operating environment given the implications to the economy with COVID-19. ASC 842-10-55-159 through 209 contains examples of lease modifications with multiple scenarios and the related detailed accounting by scenario type from the Lessor and Lessee points of view. December 31, 2019 fiscal year end public companies were the first to adopt ASC 842 and the related 2019 quarterly and annual reports filed with the SEC show a variety of ROU asset impairments recorded in 2019. The most common relates to long term office leases. See below for a few examples of ROU asset impairments recorded in 2019: a. Company A consolidated corporate office space in an effort to cut overall G&A cost. They were unsuccessful in subleasing the space and therefore recorded an impairment on the lease. b. Company B entered bankruptcy and the leases were rejected as part of the bankruptcy proceedings with the court and subsequently written them off. c. Company C is a retailer that shuttered half of their physical stores in 2019 and impaired the related locations leases. **Note:** Changes in decisions points that impact lease accounting such as likelihood of exercising renewal options, lease vs purchase decisions, and exercising bargain purchase options may have changed under the recent market conditions and could require a lease modification. Although these are not considered impairment, they would require an entity to modify their current lease accounting.

HELD FOR SALE ASSETS

ASC Guidance References	Considerations	Impairment Testing Process
ASC 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). **ASC 360-10-35-37 through 35-40** This guidance addresses the accounting for expected disposal losses for long-lived assets and asset groups that are classified as held for sale but have not yet been sold. See paragraphs 360-10-45-9 through 45-11 for the initial criteria to be met for classification as held for sale. **Measurement of Expected Disposal Loss or Gain** 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. 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. 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.	Similar to long-lived assets that are being held for use, unfavorable market conditions or other significant events may occur that might indicate that the fair value of assets being held for sale as a disposal group may be less than the current carrying amount that the assets are recorded at. Entities are required to test assets held for sale for impairment using a different method than they would test assets held for use. An entity would consider similar indicators to those related to long-lived assets that are held for use in determining if held-for-sale assets should be tested for impairment. Also, consider the market/industry that the asset group is being marketed to and if there are impacts from COVID-19 impacting those that would be likely candidates to purchase the asset group. When a triggering event is identified, an entity must perform an analysis of whether the current carrying value of the assets being held for sale is more than the fair value of the assets less estimated costs to sell. If the current carrying amount exceeds this amount, an impairment loss should be recognized and the held-for-sale assets should be written down. Complexities arise in the impairment test related to held-for-sale assets as often times the assets held for sale are a group of assets that include non-long-lived tangible assets, such as inventory and goodwill, which collectively make the disposal group. When testing a disposal group for impairment, each asset class included in the disposal group needs to be tested per the applicable guidance related to the asset class. Also, consider the market/industry that the asset group is being marketed to and if there are impacts from COVID-19 impacting those that would be likely candidates to purchase the asset group. **Riveron Insight:** Held for sale asset impairments are often times overlooked. Key indicators showing that the book value may be overstated are the length of time the assets have been classified as held for sale and numerous failed sale processes. Impairing the held for sale assets to their proper fair value also mitigates the possibility of recording material losses on sale in the P&L.	**Step 1** – Measure disposal groups a. ASC Definition: 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. b. Disposal group should be measured at its fair value, less cost to sell, and impairment losses are recognized to the extent the carrying amount exceeds this i. The order in which the disposal group should be tested for impairment is as follows: 1. Test assets other than long-lived assets included in the disposal group according to the applicable impairment guidance (e.g. test inventory using inventory guidance, etc.). 2. Test goodwill and indefinite-lived intangibles assets for impairment using ASC 350 impairment guidance. 3. Test the remaining long-lived assets, together with the results from 1&2, to determine if the entire disposal group is impaired. **Step 2** - Any subsequent increase in the disposal group's fair value, less cost to sell, should be recognized, but not in excess of the carrying value on date classified as held for sale **Note:** The order in which the assets in a disposal group are tested for impairment differs from that of held and used. Long-lived assets are tested first, prior to other assets and then finally goodwill and indefinite lived intangibles when the asset group is held and used.

INVENTORY

ASC Guidance References	Considerations	Impairment Testing Process
ASC 270-10-45-6c Inventory losses from the application of the guidance on subsequent measurement in Subtopic 330-10 shall not be deferred beyond the interim period in which the decline occurs. Recoveries of such losses on the same inventory in later interim periods of the same fiscal year through market value recoveries (for inventory measured using LIFO or the retail inventory method) or net realizable value recoveries (for all other inventory) shall be recognized as gains in the later interim period. Such gains shall not exceed previously recognized losses. Some declines in the market value (for inventory measured using LIFO or the retail inventory method) or net realizable value (for all other inventory) of inventory at interim dates, however, can reasonably be expected to be restored in the fiscal year. Such temporary declines need not be recognized at the interim date since no loss is expected to be incurred in the fiscal year. **ASC 330-10-55-2** If near-term price recovery is uncertain, a decline in the market value (for inventory measured using LIFO or the retail inventory method) or net realizable value (for all other inventory) of inventory below cost during an interim period shall be accounted for consistent with annual periods, except as described in paragraph 270-10-45-6. **ASC 330-10-35-1B** Inventory measured using any method other than LIFO or the retail inventory method (for example, inventory measured using first-in, first-out (FIFO) or average cost) shall be measured at the lower of cost and net realizable value. When evidence exists that the net realizable value of inventory is lower than its cost, the difference shall be recognized as a loss in earnings in the period in which it occurs. That loss may be required, for example, due to damage, physical deterioration, obsolescence, changes in price levels, or other causes. **ASC 330-10-35-1C** A departure from the cost basis of pricing inventory measured using LIFO or the retail inventory method is required when the utility of the goods is no longer as great as their cost. Where there is evidence that the utility of goods, in their disposal in the ordinary course of business, will be less than cost, whether due to damage, physical deterioration, obsolescence, changes in price levels, or other causes, the difference shall be recognized as a loss of the current period. This is generally accomplished by stating such goods at a lower level commonly designated as market.	As noted in ASC 270-10-45-6 and ASC 330-10-55-2, companies are required to remeasure inventory, even if out of the cycle of normal inventory measurement, if near-term price recovery on the inventory is uncertain. COVID-19 has created turmoil in nearly all areas of the supply chain and caused a decreased demand on many products. It has, in some cases, shut certain business down entirely, leading to unavailability of certain products or inability for business to move their own product. Given the significant uncertainties associated with the current market conditions, companies should consider whether their current inventory should be remeasured. The uncertainty in the current markets will likely increase the risk associated with a company's current valuation of their inventory. Companies that have seasonal, perishable, or products with a shorter shelf life will be specifically at risk. Industries that are significantly strained during this market downturn, such as the hospitality, travel, and oil and gas industries, are at an increased risk as well. Companies should consider all characteristics of their inventory to identify potential risk areas. Companies should consider whether they will experience potential inventory shortfalls or surpluses, production bottlenecks, labor or material shortages, inventory write-offs, etc. when identifying risks. They should also consider contractual obligations, such as firm purchase commitments and decline of key customer orders, when assessing risk. If a company identifies that their inventory needs to be remeasured, they then must perform the applicable measurement process to determine if an adjustment (write-down) needs to be recognized. **Riveron Insight:** Determining the appropriate time to write-down inventory with the current levels of economic uncertainty can be difficult. Robust internal documentation around the factors considered and reasons for the determined timing of the write down will aid companies when questions arise in the audit review process. Involving the operations and finance teams in the analysis is also advised, given their deep knowledge of industry cycles and its impact on your business.	**Lower of cost and net realizable value method** – Used to measure inventories accounted for using any method other than LIFO or the retail inventory method (RIM). **Step 1** – Determine net realizable value (NRV) a. ASC Definition: Estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. b. Unit of account should be determined based on characteristics and composition of the inventory. Examples include: i. Item-by-item basis if individually considered significant ii. Major category of inventory iii. Raw materials related to one single finished good c. Calculate NRV i. Determine the market value or expected selling price ii. Determine costs to sell inventory iii. NRV = market value – costs to sell **Step 2** – Perform lower of cost or NRV calculation. If NRV < cost, record a loss on inventory write-down in cost of goods sold. **Lower of cost or market value method –** Primary method used to measure inventories accounted for using LIFO or RIM methods. **Step 1** – Determine market value a. ASC Definition: As used in the phrase lower of cost or market, the term market means current replacement cost (by purchase or by reproduction, as the case may be) provided that it meets both of the following conditions: iv. Market shall not exceed the net realizable value v. Market shall not be less than net realizable value reduced by an allowance for an approximately normal profit margin d. Unit of account is typically LIFO pools that have already been established, but can be applied either directly to each item or to the total of the inventory. e. Determine market value i. Typically defined as middle value when comparing various replacement cost estimates **Step 2** – Perform lower of cost or market calculation. If Cost > market value, record a loss on inventory write-down in cost of goods sold. **Note:** Once an inventory balance is written down it creates a new cost basis that cannot be later recovered or written up.

ACCOUNTS RECEIVABLE

ASC Guidance References	Considerations	Impairment Testing Process
ASC 310-10-35-2 If, based on current information and events, it is probable that the entity will be unable to collect all amounts due according to the contractual terms of the receivable, the condition in paragraph 450-20-25-2(a) is met. As used here, all amounts due according to the contractual terms means that both the contractual interest payments and the contractual principal payments will be collected as scheduled according to the receivable's contractual terms. However, a creditor need not consider an insignificant delay or insignificant shortfall in amount of payments as meeting the condition in paragraph 450-20-25-2(a). Whether the amount of loss can be reasonably estimated (the condition in paragraph 450-20-25-2(b)) will normally depend on, among other things, the experience of the entity, information about the ability of individual debtors to pay, and appraisal of the receivables in light of the current economic environment. In the case of an entity that has no experience of its own, reference to the experience of other entities in the same business may be appropriate. **ASC 326-20-30-9** An entity shall not rely solely on past events to estimate expected credit losses. When an entity uses historical loss information, it shall consider the need to adjust historical information to reflect the extent to which management expects current conditions and reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The adjustments to historical loss information may be qualitative in nature and should reflect changes related to relevant data (such as changes in unemployment rates, property values, commodity values, delinquency, or other factors that are associated with credit losses on the financial asset or in the group of financial assets). Some entities may be able to develop reasonable and supportable forecasts over the contractual term of the financial asset or a group of financial assets. However, an entity is not required to develop forecasts over the contractual term of the financial asset or group of financial assets. Rather, for periods beyond which the entity is able to make or obtain reasonable and supportable forecasts of expected credit losses, an entity shall revert to historical loss information determined in accordance with paragraph 326-20-30-8 that is reflective of the contractual term of the financial asset or group of financial assets. An entity shall not adjust historical loss information for existing economic conditions or expectations of future economic conditions for periods that are beyond the reasonable and supportable period. An entity may revert to historical loss information at the input level or based on the entire estimate. An entity may revert to historical loss information immediately, on a straight-line basis, or using another rational and systematic basis.	Given the current market downturn that is impacting nearly every industry, entities should re-evaluate their estimates of collectability related to their current accounts receivable. Many businesses across the globe are experiencing a significant reduction in income and cash flow generation, which will likely lead to significant liquidity issues. Customers that historically have had no issue making payments may now be forced into a situation where they will need more time to make payment or may not be able to make payment. If an entity has not adopted the new CECL standard, they should refer to ASC 310 for guidance related to remeasurement. If they have adopted CECL, ASC 326 outlines the requirements related to collectability. Under ASC 310, companies will need to assess whether their current allowance for doubtful accounts is sufficient given the changes in the market. Depending on the approach used to calculate the allowance, a company may need to consider whether the traditional thresholds utilized as a policy are still applicable. For example, if a company used 3% of sales for the past five years as a policy for their allowance, they must decide if this is still applicable given the recent downturn. A company should consider the characteristics of their customer base, and their understanding of the impacts of the COVID-19 pandemic on their customers, rather than solely rely on historical metrics, to assess the likelihood of collectability. **Riveron Insight:** In recent conversations with audit partners, there will be a heightened focus on their clients' analysis surrounding the ability of customers to pay timely. It will not be as simple as saying that it's too soon to tell, auditors will require robust analysis for Q1 2020 and beyond. For example, have your top 5 customers commented on their websites or in a press release on their liquidity and cashflow? That could indicate an inability to stay current with their vendors. Companies that have adopted ASC 326 will need to consider whether their updated guidance and forecasts are consistent with those used to estimate expected credit losses associated with their accounts receivable balances. COVID-19 has had an immediate impact in the short-term, causing many businesses to temporarily cease operations, and will continue to have a significant impact on businesses across the globe for the foreseeable future. The massive disruption caused by COVID-19 to all markets will likely have a lasting long-term impact, and companies should consider this when they reassess their forecast of future economic events that influence their assessment of expected credit losses.	If a company has not yet adopted the new CECL standard, they should review and update the estimates that were used in estimating their allowance for doubtful accounts to ensure that they are still appropriate given the current environment. As companies were allowed to follow various approaches to estimating their allowance (such as income statement approach, percent of revenues, etc.), companies should consider whether the method they chose to account for the allowance will still provide an accurate representation of estimated collectability. If a company has adopted CECL, they should challenge assumptions used in their credit model(s) to determine if they need to be adjusted based on the change in market conditions: ▸ Companies should consider whether historical information and data points are still relevant, or if the significant change in the global environment make historical data no longer relevant. ▸ Companies will also need to consider if the future forecasts used in modeling are consistent with the company's most current models in other areas of the business where projections are utilized (e.g. FP&A). ▸ If companies have not pooled their accounts receivable balances by industry, they should consider doing so to determine if there is concentration within those industries (i.e., airlines, hospitality, tourism) that are most significantly impacted by COVID-19. **Note:** On April 3, 2020 the SEC stated that it will allow lenders to delay implementing the CECL standard. The delay was laid out in the legislation issued March 27, 2020 and the SEC commented that it will not take exception to that provision in the package. This delay is only available to lenders and many auditors and companies are working through exactly what the legislation means and if that trumps the current FASB guidance and implementation timeline.

OIL AND GAS PROPERTIES

ASC Guidance References	Considerations	Impairment Testing Process
ASC 932-360-35-8 through 35-12 Typically, the evaluation of oil and gas producing properties is on a field-by-field basis or by logical grouping of assets if there is a significant shared infrastructure (for example, platform). The undiscounted future cash flows shall be based on total proved and risk-adjusted probable and possible reserves. That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability. The impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value. The following paragraphs provide guidance specific to the oil and gas industry on asset impairment. However, the general rules (see the Impairment or Disposal of Long-Lived Assets Subsection of Section 360–10–15 and the Impairment or Disposal of Long-Lived Assets Subsection of Section 360–10–35) for asset impairment shall also be followed. **Proved Properties** See paragraphs 360-10-35-15 through 35-49 for impairment standards applicable to the costs of an entity's wells and related equipment and facilities and the costs of the related proved properties. **Unproved Properties** Unproved properties shall be assessed periodically to determine whether they have been impaired. A property would likely be impaired, for example, if a dry hole has been drilled on it and the entity has no firm plans to continue drilling. Also, the likelihood of partial or total impairment of a property increases as the expiration of the lease term approaches if drilling activity has not commenced on the property or on nearby properties. If the results of the assessment indicate impairment, a loss shall be recognized by providing a valuation allowance. Impairment of individual unproved properties whose acquisition costs are relatively significant shall be assessed on a property-by-property basis, and an indicated loss shall be recognized by providing a valuation allowance. When an entity has a relatively large number of unproved properties whose acquisition costs are not individually significant, it may not be practical to assess impairment on a property-by-property basis, in which case the amount of loss to be recognized and the amount of the valuation allowance needed to provide for impairment of those properties shall be determined by amortizing those properties, either in the aggregate or by groups, on the basis of the experience of the entity in similar situations and other information about such factors as the primary lease terms of those properties, the average holding period of unproved properties, and the relative proportion of such properties on which proved reserves have been found in the past. The impairment provisions relating to unproved properties referred to in paragraphs 932-360-35-11, 932-360-35-19, 932-360-40-1 through 40-2, and 932-360-55-8 through 55-9 remain applicable to unproved properties.	Under both the successful efforts and full cost methods of accounting for oil and gas properties, companies are required to perform impairment testing when changes in circumstances or market conditions suggest that the estimates that are included in their current valuation of their oil and gas properties may no longer be accurate or representative of the true value of the properties. Given the recent significant downturn in the oil and gas industry, and general market conditions declining across all industries, oil and gas companies should give careful consideration as to whether impairment of their oil and gas properties has been triggered. **Successful Efforts Method** Companies that follow the successful efforts method of accounting should consider if recent decline in oil and gas prices has caused any triggering events that would impact the assumptions and forecasts that are inputs into their current valuation of their unproved properties. Many companies have decided to significantly cut capital spending forecasts for 2020, and this will likely trigger changes to their drilling schedules that will be impactful to impairment considerations. **Full Cost Method** For those companies that follow the full cost method of accounting, the current decrease in prices will likely lead to a large enough drop in the pricing used for reserves calculation that a ceiling test write-down will be probable in the next few quarters, potentially as early as the first quarter of 2020. Even if the company does not have a ceiling test write-down in the first quarter, consideration should be given to updating forward looking disclosures suggesting that ceiling-test write downs are expected later in the year. **Riveron Insight:** Unproved property impairment will be a large focus in the first quarter of 2020 and beyond as the decline in oil prices continues. Companies need to take a hard look at drilling schedules and planned capital expenditure cuts and verify alignment with the data utilized in their unproved property impairment analysis. Many lease terms may be passed without drilling activity and therefore need to be written off as soon as that information is known.	Impairment considerations for proved property and the associated equipment and facilities follow the steps outlined in ASC 360-10-35, in the long-lived assets section. For successful effort companies, impairment considerations related to unproved properties follow the guidance outlined in ASC 932-360-35 and Reg. S-X Rule 4-10. **Step 1** – Impairment is assessed on an individual property basis – determine which properties are individually significant a. No specific guidance on what represents an individually significant property, but generally this is represented by a property with capitalized costs that exceed 10% of net capitalized costs within a country-wide cost center. **Step 2** – Assess impairment indicators for each property identified. Considerations that may or may not indicate impairment include: a. The company has definite plans to drill on a lease this usually indicates no impairment should be recognized. b. If drilling plans are uncertain or they have changed significantly and it now appears the lease will not be drilled, impairment is probable. **Step 3** – If the answer to Step 2 is b, the company should follow their impairment policy in recognizing impairment. Companies that follow the full cost method of accounting should follow their ceiling test accounting policies and procedures that are aligned with the ceiling test calculation prescribed by the SEC under Rule 4-10 of Regulation S-X.

EQUITY METHOD INVESTMENTS

ASC Guidance References	Considerations	Impairment Testing Process
ASC 323-10-35-31 through 35-32A A series of operating losses of an investee or other factors may indicate that a decrease in value of the investment has occurred that is other than temporary and that shall be recognized even though the decrease in value is in excess of what would otherwise be recognized by application of the equity method. A loss in value of an investment that is other than a temporary decline shall be recognized. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity that would justify the carrying amount of the investment. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. However, a decline in the quoted market price below the carrying amount or the existence of operating losses is not necessarily indicative of a loss in value that is other than temporary. All are factors that shall be evaluated. An equity method investor shall not separately test an investee's underlying asset(s) for impairment. However, an equity investor shall recognize its share of any impairment charge recorded by an investee in accordance with the guidance in paragraphs 323-10-35-13 and 323-10-45-1 and consider the effect, if any, of the impairment on the investor's basis difference in the assets giving rise to the investee's impairment charge.	Although an equity method investor is not required to separately test an investee's underlying assets for impairment, certain triggering events may occur that signify that the overall value of the investment to the investor has been permanently impaired and will likely not be fully recoverable. Such indicators include: a. Expected investee performance has been significantly impacted by circumstances or events from which it does not appear the investee might recover; b. Estimated future cash flows (discounted or undiscounted) are below current carrying value; c. Periods of sustained losses with no indication that earnings are likely in the future; d. Downgrade in investees credit rating; e. Investee has lost significant customers or other investors. **Riveron Insight:** Obtaining the appropriate data to perform an impairment analysis related to equity method investments can prove to be difficult when the ownership percentage and decision-making rights are limited. Regardless, companies need to be prepared to document their analysis of impairment triggers. Discussing the need for data at the appropriate precision level early with the investee is advised as the sustained economic decline could likely result in an impairment of your investment.	**Step 1** – Calculate fair value of equity method investment a. Discounted cash flow method is most typical approach to determine fair value. b. Other approaches are less common but acceptable: i. Market approach – if fair value of the investment is available based on market valuations, this method should be used over the discounted cash flow method. ii. Other income approaches described in ASC 820. **Step 2** – If fair value of investment < carrying value, record loss on investment and reduce investment carrying amount to fair value.