



Asset Group versus Individual Assets

Due to the fact that the fair value standards and their applications are evolving, especially in the realm of level 3 measurements, we find in audit reviews that valuation reviewers have differing opinions on a variety of specific applications, which oftentimes (a) make us look bad and (b) keep us sufficiently confused. While we could write a book on these collectively, I thought perhaps I'd focus on one in particular, as the implications of it are rather significant. The area falls under the purview of ASC 350 and ASC 360 and involves long lived intangible asset testing for impairment. In the pre codification days, SFAS 144 served as the standard for this test, and each asset was tested individually, comparing the undiscounted cash flow to the carrying value. That is how we have continued to do it. However, recently we were instructed by a big four accounting firm that in the case of assets valued using excess earnings methods (think customer relationships) the correct approach was to value the asset group as a whole (the reporting unit) as this was the lowest level of identifiable cash flows. This of course changes the exercise completely! If the undiscounted cash flows exceed the carrying value – no impairment of any long lived assets! Obviously we felt rather embarrassed by this oversight, and made the appropriate changes, which totally changed the outcome. Heading into our next assignment, which of course also had an excess earnings asset, we used the reporting unit as the lowest level of identifiable cash flows and tested at that level first. The valuation reviewer (not big 4, but close) asked why we didn't test all the individual assets separately. And so of course we changed it back. Totally confusing.

