THE EXCHANGE
SEMINAR SERIES

MARKET INSIGHTS FOR PUBLIC COMPANIES

Everything you need to know to stay ahead of the curve

Illustrative example:
Impairments involving non-controlling interests (NCI)

A complication arises when a parent entity acquired less than 100 percent shares in a subsidiary and there is some NCI.

There are two options to measure the NCI:

1. Partial method, or at the proportionate share of NCI on subsidiary's assets
2. Full method, or at fair value.

The calculation of goodwill impairment depends on the method that was selected for measuring the NCI.

Goodwill impairment with the partial method for NCI

In the partial method, the goodwill represents only the parent entity's share of that goodwill. Therefore, for the purpose of impairment testing, entities need to gross-up the goodwill to 100 percent before they begin testing it for impairment. This is essentially required as 100 percent of cash generating unit (CGU)'s carrying amount with goodwill needs to be compared with 100 percent of CGU's recoverable amount.

If there is an impairment loss of goodwill, then only the parent entity's share needs to be reduced.

Illustration

A parent entity has 80 percent in a subsidiary and NCI was measured by the partial method. The carrying amount of goodwill is $100 and the carrying amount of other CGU's assets is $1,300. The recoverable amount is $1,400.

At the outset, it appears that there is no impairment loss, but it needs to be recognized that goodwill has not been grossed up yet.

The impairment loss calculation is:

- Carrying amount of goodwill grossed up to 100 percent: $100 / 80 percent*100 percent = $125
- Add carrying amount of other assets: $1,300 (no need to gross up as they are stated at 100 percent)
- Less recoverable amount of CGU: $1,400
- Impairment loss: $25
- As the Impairment loss is 100 percent and it fully relates to the goodwill, only 80 percent of it would be recognized, which is $20.

The journal entry:

- Debit profit or loss – Impairment of assets: $20
- Credit goodwill: $20

Remember – need to track the NCI share of goodwill.

The above Illustration demonstrates the mechanics of considering NCI in the goodwill impairment test. If the parent entity was to ignore this requirement, it would have calculated a nil impairment ($1,400 – $1,300-$100), rather than the $20 recognized in accordance with IAS 36, *Impairment of Assets*.