Case 22-8 — Handout 1 — Factors and Assumptions Table

Goodwill Risk Assessment

While not exhaustive, the following table presents factors and assumptions that most commonly have an impact on the assessment of risk related to the goodwill account balance. The table also presents the underlying drivers that can vary the level of risk associated with each factor or assumption.

Factors and Assumptions	Less Risk	More Risk	Drivers
Company-Specific Factors			
Number of reporting units	Single reporting unit entity or entity with multiple reporting units, but one reporting unit makes up substantially all of the recorded goodwill balance and key financial metrics	Multiple reporting units	Facts and circumstances relevant to determination of reporting units (criteria per relevant accounting guidance — e.g., organizational structure, management review of results, economic characteristics)
Amount by which fair value exceeds carrying value (cushion)	Large cushion	Small cushion	Various (economic, business, etc.)
Business and Economic Conditions			
Industry volatility	Low level of volatility — mature industry, low level of growth, consistent operations	High level of volatility — new industry, high level of growth, high level of competition, changing or dynamic operations	Industry specific

Factors and Assumptions	Less Risk	More Risk	Drivers
Business and Economic Conditions (continued)			
General economic conditions	General economy is performing well (e.g., low unemployment, high growth, positive market returns), which affects business drivers in positive manner	General economy is not performing well (e.g., high unemployment, low growth or contraction, negative market returns), unless the entity typically performs well under such conditions (defensive companies)	Economic conditions
Regulatory or political environment	Stable regulatory or political environment, regulatory or political environment has little impact on business	Volatile regulatory or political environment, business is highly affected by regulatory or political environment	Change in political or regulatory landscape, new regulations or laws, changes to existing regulations or laws
Company Processes			
Changes in process	No change in the process, consistent application of a qualitative or quantitative assessment	Change in the process, moving from a qualitative assessment to a quantitative assessment (or vice versa) such that the company processes are different from its historical application and may present new risks	
Experience of individuals performing test	Highly experienced in valuations and knowledgeable of relevant accounting guidance, use of highly competent external parties to assist management with valuation	Relatively inexperienced in valuations and relevant accounting guidance, no use of external parties for valuation or use of parties that are not considered competent or experienced in the relevant field	Company-specific (level and experience of individual performing and reviewing test), management decision (whether to use external parties)

Factors and Assumptions	Less Risk	More Risk	Drivers
Valuation Methods and Techniques			
Single versus multiple valuation techniques	Multiple valuation techniques used to determine fair value with no indication of bias applied in weighting or choosing techniques	Single valuation technique is used or there is indication of bias in choice or weighting of multiple valuation techniques	Management decision
Historical application of valuation techniques	Applied consistently year over year (in terms of techniques applied and weighting if multiple techniques are used)	Inconsistency in application year over year (in terms of techniques applied or weighting if multiple techniques are used)	Management decision
Business Assumptions			
Management's ability to accurately project cash flows	• Business assumptions are highly consistent with historical results, industry averages, internal and external communications, and analyst estimates or opinions; high level of directional consistency with other assumptions • Management has history of accurately projecting cash flows used in a discounted cash flow model • Cash flows are relatively predictable because they are contract driven • Short-to-medium period of future cash flows required as part of valuation	• Business assumptions are inconsistent with historical results, industry averages, internal and external communications, and analyst estimates or opinions; low level of directional consistency with other assumptions; projections are aggressive or unrealistic in relation to historical results • Management has historically failed to accurately project cash flows used in a discounted cash flow model • Cash flows are highly dependent/contingent on future events and/or high level of uncertainty associated with the certainty of occurrence and timing of occurrence of the future events • Extended period to project (e.g., life of mine)	Selection and quality of assumptions, internal and external use of forecasts, management ability, predictability of cash flows, level of management judgment required, period to project

Factors and Assumptions	Less Risk	More Risk	Drivers
Business Assumptions (continued)			
Management's intent and ability to take specific actions	Management has consistently delivered on specific actions	Management has failed to deliver on specific actions	Management ability and experience
Valuation Assumptions			
Income model assumptions	1. Company-specific risk premium included or excluded in discount rate consistent with prior analysis coupled with low level of estimation uncertainty in cash flow projections or a situation in which a company- specific risk premium would clearly not be needed 2. Decline or no change in industry discount rate ranges coupled with high cushion between fair value and carrying value 3. Increase or no change in gross domestic product (GDP) and inflation growth rate forecasts for the economy and growth rate forecasts for the specific industry sectors coupled with high cushion between fair value and carrying value	1. Lower to no company-specific risk premium included in discount rate when there is a high level of estimation uncertainty in cash flow projections Company-specific risk premium lowered compared with prior analysis coupled with higher level of estimation uncertainty in cash flow projections (i.e., actual performance is lower than budgeted performance or revenue growth and margins are higher over the projection period compared to prior-year forecasts) 2. Increase in industry discount rate ranges 3. Decrease in GDP and inflation growth rate forecasts for the economy and growth rate forecasts for the specific industry sectors	1. Management decision 2. External market factors 3. External market factors

Valuation Assumptions (continued)			
Market model assumptions	1. Valuation multiples used in market approach are consistent with those typically used to value similar businesses 2. Increase or no change in average and median multiples of the selected guideline public companies coupled with high cushion between fair value and carrying value	1. Valuation multiples used in market approach are inconsistent with those typically used to value similar business, or multiples are inconsistently applied year over year, or evidence of bias in selection of multiples 2. Decrease in average and median multiples of the selected guideline public companies	1. Management decision 2. External market factors