IAS 36 *Impairment of Assets*

Last updated: March 2017

SCOPE

Does NOT apply to impairment of:

- Inventory (see IAS 2);
- Assets from construction contracts (IAS 11);
- Deferred tax assets (IAS 12);
- Assets from employee benefits (IAS 19);
- Financial assets; other than subsidiaries, associates and joint ventures;
- Investment property measured at FV (IAS 40);
- Biological assets measured at FV less disposal cost (IAS 41);
- Assets from insurance contracts (IFRS 4);
- Non-current assets that are held-for-sale or discontinued operations (IFRS 5).

IDENTIFYING IMPAIRMENT

Assess **all assets** for indication of impairment at the end of **each reporting period**. If *indicators* exists → estimate *recoverable amount* and test for impairment.

Minimum impairment indicators to consider include:

External sources of info:

- ↓ in asset's value significantly more than expected for passage of time/normal use.
- Significant & adverse technological, market, economic or legal environment changes.
- ↑ in market interest rates/returns (that are likely to cause a material ↓ in recoverable amount).
- Entity's net assets > market capitalization.

Internal sources of info:

- Evident obsolescence/physical damage
- Significant & adverse changes in (efxpected) use of asset (e.g., idle assets, discontinuation/ restructuring plans, change in disposal plans/useful life finite rather than indefinite).
- Evidence that economic performance of asset is/will be worse than expected.

Dividend from subsidiaries/associates/ joint venture recognized and evidence that:

- Carrying amount of investment in separate F/S > carrying amount of investee's net assets in consolidated F/S (including associated goodwill); or
- Dividend recognized > total comprehensive income of the subsidiary, associate or joint venture in period declared.

May also indicate need to review/adjust useful life, depreciation or residual value.

Regardless of whether indicators exist, **annually** test:

Intangibles with indefinite useful life/not yet available for use

- Test at same time annually.
- First test performed before the end of the annual period in which it was initially recognized.

Goodwill acquired in business combination

- Allocate goodwill to *CGUs* or groups of *CGU*s that are expected to benefit from the synergies of the combination (regardless of whether assets/liabilities of the acquiree are assigned to those *CGUs*).
- Allocation unit based on lowest level within the entity at which the goodwill is monitored for internal management purposes AND is =< an operating segment before aggregation.
- Test at same time annually by testing the *CGU* to which it has been allocated. First test performed at end of annual period in which business combination affected.
- Test after other assets/*CGU*s if tested at the same time.
- Gross up goodwill where NCI measured at % interest in net identifiable assets (rather than at FV) - refer to IAS 36.C4 for guidance.

MEASURING RECOVERABLE AMOUNT

Higher of:

Fair value (FV) less disposal costs:
Price received to sell asset/paid to transfer liability in an orderly transaction between market participants @measurement date**,** less incremental costs directly attributable to disposal (excluding finance costs and income tax expense).

- Examples of disposal costs: legal costs, taxes, removal costs - NOT termination benefits.

Value in use:
PV of future cash flows expected from asset/*CGU* (see IAS 36 for detail).

- Exclude financing, income taxes and future restructuring/improvements to which not committed.
- Utilize pre-tax discount rate, reflecting specific risks of asset/*CGU.*

- Determine for individual asset UNLESS asset does not generate cash flows that are largely independent of those from other assets (e.g., corporate assets) → estimate for *CGU* to which asset belongs (not applicable if *value in use* close to *FV less disposal costs* OR *FV less disposal costs* > carrying amount).
- If *FV less disposal costs* NOT possible to determine → use *value in use.*

Cash generating unit (CGU): Smallest identifiable group of assets that generates cash inflows that are largely independent from other assets/groups of assets.

- Identify as separate *CGU* if active market exists for the output, even if some/all used internally. Internal transfer pricing → use management's best estimate of future price(s) that could be achieved in arm's length transaction when estimating cash flows.

RECOGNIZING AND MEASURING IMPAIRMENT LOSSES

***Recoverable amount* < carrying amount → reduce carrying amount to recoverable amount**

- Recognize impairment loss in P/L UNLESS revalued asset.
- If revalued asset → treat as revaluation decrease to extent that impairment loss not greater than revaluation surplus → excess in P/L.

Impairment loss on CGUs:

- First, reduce goodwill allocated to *CGU*; then, allocate to assets in *CGU* on pro-rata basis (treat as impairment loss for individual assets).
- Do NOT reduce carrying amount below higher of: *FV less disposal cost*/*value in use* (if measurable/determinable) and zero → allocate excess pro-rata to other assets in *CGU.*

REVERSING IMPAIRMENT

At end of reporting period, assess for indication that impairment from prior periods has decreased/no longer exists – impairment of goodwill is NOT reversed!!

- The indicators of impairment reversal mainly mirror the *indicators of impairment.*
- If *indicators* exist → estimate *recoverable amount*.
- If *recoverable amount* > carrying amount AND estimates used to determine the asset's *recoverable amount* since the last impairment loss has changed (i.e., increase NOT due to passage of time) → increase carrying amount to *recoverable amount* BUT not higher than original carrying amount (net of depreciation/amortization) which would have otherwise resulted had no impairment loss been recognized.
- Recognize reversal in P/L UNLESS revalued asset.
- If revalued asset → recognize reversal in P/L to extent that impairment loss was recognized in P/L instead of comprehensive income → treat excess reversal as a revaluation increase in accordance with other IFRS.

Reversal on *CGUs*:

- Allocate reversal to assets in *CGU*s (excluding goodwill) on pro-rata basis → allocate excess (above old carrying amount net of amortization) pro-rata to other assets in *CGU.*