



IAS 36 Impairment of Assets

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Objective of IAS 36

- To ensure that assets are carried at no more than their recoverable amount, and to define how recoverable amount is calculated.

Scope of IAS 36

- Therefore, IAS 36 applies to (among other assets):
- land
- buildings
- machinery and equipment
- investment property carried at cost
- intangible assets
- goodwill
- investments in subsidiaries, associates, and joint ventures
- assets carried at revalued amounts under IAS 16 and IAS 38

[Key Definitions]

- **Impairment**
- **Carrying amount**
- **Recoverable amount**
- **Fair value**
- **Value in use**
 - **the continuing use of an asset, and from**
 - **its disposal at the end of its useful life.**

Identifying an Asset That May Be Impaired

- At each balance sheet date, review all assets to look for any indication that an asset may be impaired (its carrying amount may be in excess of the greater of its net selling price and its value in use). IAS 36 has a list of external and internal indicators of impairment. If there is an indication that an asset may be impaired, then you must calculate the asset's recoverable amount. [IAS 36.9]

[Indications of Impairment]

- External sources
- Internal sources

Determining Recoverable Amount

- If fair value less costs to sell or value in use is more than carrying amount, it is not necessary to calculate the other amount. The asset is not impaired. [IAS 36.19]
- If fair value less costs to sell cannot be determined, then recoverable amount is value in use. [IAS 36.20]
- For assets to be disposed of, recoverable amount is fair value less costs to sell. [IAS 36.21]

[Fair Value Less Costs to Sell]

- If there is a binding sale agreement ... [IAS 36.25]
- If there is an active market for that type of asset ... [IAS 36.26]
- If there is no active market ... [IAS 36.27]
- Costs of disposal are the direct added costs only (not existing costs or overhead). [IAS 36.28]

Value in Use

- The calculation of value in use should reflect the following elements: [IAS 36.30]
- an estimate of the future cash flows the entity expects to derive from the asset in an arm's length transaction;
- expectations about possible variations in the amount or timing of those future cash flows;
- the time value of money, represented by the current market risk-free rate of interest;
- the price for bearing the uncertainty inherent in the asset; and
- other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.
- Cash flow projections should be based on ... [IAS 36.33]
- ...

Discount Rate

- In measuring value in use, the discount rate used should be the pre tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. [IAS 36.55]
- For impairment of an individual asset or portfolio of assets, the discount rate is ...
- If a market determined asset specific rate is not available ... The following would normally be considered: [IAS 36.57]
- ...
- ...
- ...

Recognition of an Impairment Loss

- An impairment loss should be recognised whenever recoverable amount is below carrying amount. [IAS 36.59]
- The impairment loss is an expense in the income statement (unless it relates to a revalued asset where the value changes are recognised directly in equity). [IAS 36.60]
- Adjust depreciation for future periods. [IAS 36.63]

Cash Generating Units

- Recoverable amount should be determined for the individual asset, if possible. [IAS 36.66]
- If it is not possible to determine the recoverable amount ... [IAS 36.66]
- The CGU is the smallest identifiable group of assets: [IAS 36.6]
- ...
- ...

[Impairment of Goodwill]

- Goodwill should be tested for impairment annually. [IAS 36.96]
- To test for impairment ...

Reversal of an Impairment Loss

- Same approach as for the identification of impaired assets: assess at each balance sheet date whether there is an indication that an impairment loss may have decreased. If so, calculate recoverable amount. [IAS 36.110]
- ...

[Disclosure]

- Disclosure by class of assets: [IAS 36.126]
- ...
- Disclosure by segment: [IAS 36.129]
- ...
- Other disclosures:
- ...
- Cash generating unit: description, amount of impairment loss (reversal) by class of assets and segment.
- ...
- Disclose detailed information about the estimates used to measure recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives. [IAS 36.134-35]

Reference

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