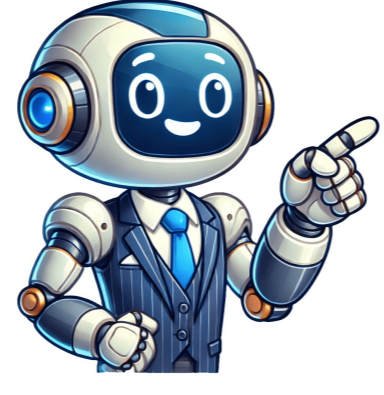


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Exclude: inventories, deferred tax assets, contract assets (IFRS 15), employee benefits (IAS 19), financial assets, investment property at fair value, biological assets, insurance contract assets, non-current assets held for sale (IFRS 5) Are there any indicators of impairment? External: Market value of assets declined significantly Market interest rates increased higher discount rate Adverse economic, legal, regulatory, or technological changes Market cap < net asset value of entity Internal: Asset is obsolete or physically damaged Plans to discontinue, dispose of or restructure an asset/business Poor economic performance vs forecasts If YES Go to impairment test If NO No further action (except for mandatory testing assets below) Annual Mandatory Impairment test: Is the asset one of these? Goodwill Intangible assets with indefinite useful life Intangible assets not yet available for use If YES Go perform annual impairment test regardless of indicators/triggers If NO Test only if indicators exist Estimate Recoverable Amount Higher of: Fair value less Costs of Disposal Use IFRS 13 Fair Value Measurement for guidance Deduct direct disposal costs (legal fees, taxes, removal, etc.) Value in Use Estimate future cash flows (max 5 years forecast + extrapolation) Use reasonable, supportable assumptions Apply pre-tax discount rate reflecting market risks TIP: Be consistent discount inflation-adjusted cash flows with nominal rate / real cash flows with real rate Determine Impairment Loss Is recoverable amount < impairment loss? If NO No impairment loss If YES The difference = impairment loss; recognize in profit or loss, or OCI if asset is revalued in line with IAS 16/IAS 38 Is the asset a part of CGU (Cash-Generating Unit)? Use CGU when asset does not generate independent cash inflows Allocate corporate assets & goodwill appropriately Maintain consistency across periods Document CGU assumptions and allocations Allocate Impairment Loss First reduce goodwill Then reduce other CGU assets pro rata Do not reduce any asset below: FV less costs of disposal Value in use Zero Reversal of Impairment Loss reassess at each reporting date: Have the impairment indicators reversed? Re-estimate recoverable amount Cannot reverse impairment of goodwill Reverse only to the extent the assets carrying amount would not exceed depreciated historical cost Disclosure Requirements (Summary of selected disclosures) For each class of assets: Amount of impairment losses & reversals in P/L Line item in P/L where recognized Impairment losses on revalued assets in OCI Events leading to recognition Reversal Expenditures recognized in the carrying amount of PPE in the course of its construction Recoverable amount basis: FV less costs or value in use Discount rates used (if value in use calculated) For CGUs: Amount of impairment losses & reversals in P/L Basis for determining recoverable amount Key assumptions used in cash flow projections Growth rate used and justification Discount rate used Return to top 10. Further reading Explore more on IAS 36. Visit this page to access the full library of all IAS 36-related articles, videos, and examples published by CPDbox. Learn IFRS with real examples not just theory. Return to top The International Accounting Standards Board (IASB) has established guidelines for the recognition, measurement, and disclosure of asset impairment in International Accounting Standard (IAS) 36. Asset impairment occurs when an assets carrying amount surpasses its recoverable amount. The carrying amount refers to the value at which an asset is recognised on the balance sheet, whilst the recoverable amount is the higher of an assets fair value less costs to sell and its value in use. IAS 36 is applicable to all assets except inventories, assets arising from construction contracts, deferred tax assets, assets arising from employee benefits, and financial assets within the scope of IAS 39. The standard mandates that entities assess at each reporting date whether there are indications of asset impairment and, if such indications exist, to estimate the assets recoverable amount. If the recoverable amount is lower than the carrying amount, the entity must recognise an impairment loss. IAS 36 also specifies the conditions under which an entity should reverse an impairment loss. This standard is significant as it ensures assets are not carried at amounts exceeding their recoverable amounts, thus providing users of financial statements with reliable information about an entities assets. It also prevents entities from overstating asset values, which could result in misleading financial statements. Comprehension and application of IAS 36 are crucial for entities to comply with international accounting standards and provide transparent and accurate financial information to stakeholders. Introduction to Impairment of Assets (IAS 36) IAS 36 outlines the accounting treatment for impairment of assets and sets out the procedures to be followed to ensure that assets are carried at no more than their recoverable amount. Understanding the Impairment Test The impairment test involves comparing the carrying amount of an asset with its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Identifying Indicators of Impairment Indicators of impairment include external factors such as market decline, internal factors such as obsolescence, and events such as changes in technology or legislation. Measurement of Impairment If the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and the impairment loss is calculated as the difference between the two amounts. Reversal of Impairment Loss An impairment loss can be reversed if there has been a change in the estimates used to determine the recoverable amount, but only to the extent that the assets carrying amount does not exceed what it would have been had no impairment loss been recognised. Disclosures and Reporting Requirements Entities are required to disclose the amount of impairment losses recognised and reversed during the period, as well as the key assumptions used in determining the recoverable amount of assets. Practical Examples and Case Studies Practical examples and case studies can help illustrate the application of IAS 36 in real-life scenarios, providing valuable insights into the impairment of assets and its impact on financial reporting. Understanding the Impairment Test The impairment test under IAS 36 is a two-step process. The first step involves determining whether there are any indications that an asset may be impaired. Indications of impairment can arise from both external and internal sources. External sources may include significant changes in market conditions, technological advancements, legal or regulatory changes, and changes in interest rates or foreign exchange rates. Internal sources may include evidence of obsolescence or physical damage, evidence of a significant decline in the assets market value, or evidence of a significant adverse change in the extent or manner in which an asset is used or its physical condition. If there are indications of impairment, the second step involves estimating the recoverable amount of the asset. The recoverable amount is the higher of an assets fair value less costs to sell and its value in use. Fair value less costs to sell is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset or a cash-generating unit. If the recoverable amount is less than the carrying amount, an impairment loss is recognized. The impairment loss is calculated as the difference between the carrying amount of the asset and its recoverable amount. The impairment test requires judgment and estimation, as it involves assessing future cash flows and determining fair values. Entities must use reasonable and supportable assumptions based on the best available information at the reporting date. It is important for entities to carefully consider all available evidence and exercise professional skepticism when performing the impairment test to ensure that assets are not carried at amounts greater than their recoverable amounts. Identifying Indicators of Impairment There are various indicators that may suggest an asset is impaired and require further investigation under IAS 36. External indicators may include a significant decline in the market value of an asset, changes in technological or market conditions, increases in market interest rates, or a significant adverse change in legal or regulatory environment affecting the asset. Internal indicators may include evidence of physical damage, obsolescence, or changes in how an asset is used within an entity. For example, a company may have invested in a manufacturing plant that uses outdated technology. If there are indications that newer technology has made the plant less efficient or if there has been a significant decline in demand for products manufactured by the plant, this could be an indicator of impairment. Similarly, if a company owns a building that has been damaged by a natural disaster or has been underutilized due to changes in business operations, this could also be an indicator of impairment. It is important for entities to regularly review their assets for indicators of impairment and to consider both external and internal factors that may affect the recoverable amount of their assets. By identifying indicators of impairment early on, entities can take timely action to assess and address any potential impairment losses. Measurement of Impairment The measurement of impairment under IAS 36 involves comparing an assets carrying amount with its recoverable amount. The carrying amount is the amount at which an asset is recognized in the balance sheet, while the recoverable amount is the higher of an assets fair value less costs to sell and its value in use. Fair value less costs to sell is determined based on market prices and other relevant information at the measurement date, less the costs of disposal. Value in use is determined based on estimates of future cash flows expected to be derived from an asset or a cash-generating unit. If the recoverable amount is less than the carrying amount, an impairment loss is recognized. The impairment loss is calculated as the difference between the carrying amount of the asset and its recoverable amount. The impairment loss reduces the carrying amount of the asset and is recognized as an expense in the income statement unless it reverses a previous revaluation increase for that same asset. The measurement of impairment requires judgment and estimation, as it involves assessing future cash flows and determining fair values. Entities must use reasonable and supportable assumptions based on the best available information at the reporting date. It is important for entities to carefully consider all available evidence and exercise professional skepticism when measuring impairment to ensure that assets are not carried at amounts greater than their recoverable amounts. Reversal of Impairment Loss Under IAS 36, an impairment loss recognized for an asset can be reversed if there has been a change in the estimates used to determine the recoverable amount. However, such reversal is limited to the carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversal of an impairment loss is only allowed if there has been a change in circumstances that led to the recognition of the impairment loss. For example, if a company recognizes an impairment loss for a building due to a decline in demand for office space in a particular location, but subsequently experiences an increase in demand due to economic development in that area, it may be appropriate to reverse part or all of the previously recognized impairment loss. However, it is important for entities to exercise caution when considering reversal of impairment losses and ensure that there is sufficient evidence to support such reversal. Reversal of impairment losses provides transparency and accuracy in financial reporting by reflecting changes in circumstances that affect an assets recoverable amount. It also prevents assets from being carried at amounts lower than their recoverable amounts when there has been a change in estimates used to determine recoverable amounts. Disclosures and Reporting Requirements IAS 36 requires entities to disclose information about impairment losses recognized during the period, including the nature and amount of each class of assets affected by impairments. Entities must also disclose the events and circumstances that led to the recognition of impairment losses, as well as any reversal of impairment losses recognized during the period. In addition, entities are required to disclose key assumptions used in determining recoverable amounts, including discount rates, growth rates, and other relevant factors. This disclosure provides transparency and allows users of financial statements to understand the basis for determining recoverable amounts and assessing potential reversals of impairment losses. Entities must also disclose information about cash-generating units for which goodwill has been allocated and any impairment losses recognized for goodwill during the period. This disclosure provides stakeholders with information about potential impairments of goodwill and their impact on an entities financial position. Practical Examples and Case Studies To illustrate the application of IAS 36, consider a manufacturing company that owns a production facility. Due to changes in market conditions and technological advancements, there are indications that the facility may be impaired. The company estimates the recoverable amount of the facility based on its value in use, which involves estimating future cash flows expected to be derived from operating the facility. If the estimated recoverable amount is less than the carrying amount of the facility, the company recognizes an impairment loss equal to the difference between the carrying amount and the recoverable amount. This impairment loss is then disclosed in the financial statements along with key assumptions used in determining the recoverable amount. In another example, a company owns a trademark that has been impaired due to changes in consumer preferences and market conditions. The company estimates the fair value less costs to sell of the trademark based on market prices and other relevant information at the measurement date. If the estimated fair value less costs to sell is less than the carrying amount of the trademark, the company recognizes an impairment loss equal to the difference between the carrying amount and the fair value less costs to sell. These practical examples demonstrate how entities apply IAS 36 to assess potential impairments of their assets and recognize impairment losses when necessary. By following these guidelines, entities can provide transparent and accurate financial information to stakeholders while ensuring compliance with international accounting standards. One related article to Impairment of Assets (IAS 36) is Training behind UK businesses: what options are available which discusses the various training options available for businesses in the UK. This article provides insights into the importance of continuous learning and development for employees, which is crucial for staying competitive in the global market. It also highlights the different training methods and programmes that businesses can utilise to enhance their workforces skills and knowledge. This is particularly relevant to IAS 36 as it emphasises the need for businesses to invest in their human capital, which can ultimately impact the assessment of asset impairment. For more information, you can read the full article here. FAQs What is IAS 36? IAS 36 is an accounting standard issued by the International Accounting Standards Board (IASB) that sets out the procedures to be followed for impairment testing and recognition of impairment losses on assets. What is impairment of assets? Impairment of assets occurs when the carrying amount of an asset exceeds its recoverable amount. This means that the asset is no longer able to generate sufficient cash flows to cover its carrying amount. IAS 36 applies to all assets, excluding certain financial assets and goodwill, that are carried at a cost or revalued amount. How is impairment testing conducted under IAS 36? Impairment testing involves comparing the carrying amount of an asset with its recoverable amount. If the carrying amount exceeds the recoverable amount, the asset is considered impaired and an impairment loss must be recognized. What is the recoverable amount of an asset? The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of an asset in an arms length transaction, while value in use is the present value of the future cash flows expected to be derived from the asset. How is an impairment loss recognized under IAS 36? If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The impairment loss is calculated as the difference between the carrying amount and the recoverable amount of the asset. Can an impairment loss be reversed under IAS 36? An impairment loss can be reversed if there has been a change in the estimates used to determine the recoverable amount of an asset. However, the reversal is limited to the original carrying amount of the asset, and it cannot exceed the amount that the carrying amount would have been had no impairment loss been recognized.

Ias 36 impairment of assets summary. Ias 36 explained. Ias 36 impairment of assets example. Ias 36 impairment. Ias 36.12.