




# Impairment of Assets (IAS-36)

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# Objective & Scope

## Objective:

- To prescribe the procedures to ensure that entity's Assets are carried at no more than their recoverable amount.
- Impairment loss to be recognised in the financial statements
- Impairment loss may be reversed in certain circumstances
- To make certain disclosures for impairment losses, impaired assets, reversal of impairment losses and key estimates and assumptions used

# Objective & Scope (cont'd)

## Scope:

Applies to all assets (including current assets) other than:

- a) Inventories (IAS 2 - Inventories)
- b) Assets arising from construction contracts (IAS 11- Construction Contracts)
- c) Deferred tax assets (IAS 12-Income Taxes)
- d) Assets arising from employee benefits (IAS 19-Employee Benefits)
- e) Financial Assets that are within the scope of IFRS 9 - Financial Instruments
- f) Investment Property (IAS 40 - Investment Property)
- g) Biological assets (IAS 41- Agriculture)
- h) Deferred acquisition costs, and intangible assets arising from Insurance contract (IFRS 4)
- i) Non-current asset (or disposal groups) classified as held for sale in accordance with IFRS 5

# What is impairment?

- If, and only if, the recoverable amount of an asset is less than its carrying amount (may be carried at cost or revalued amount)
  - ✓ the asset is impaired
  - ✓ the asset's carrying amount should be reduced to its recoverable amount

Asset i.e. Individual asset or Cash Generating Unit (CGU)

# Identifying assets for impairment testing

- All assets in its scope shall be required for impairment testing where there is an impairment indicator **at each reporting period**.
- However, in the case of goodwill acquired in a business combination, indefinite life intangible assets and intangible assets that are not yet ready for use must also be tested for impairment **annually** irrespective of whether there any indication of impairment.

## Indications of Impairment:

### External sources:

- ✓ Decline in market value
- ✓ Changes in technological, market, economic or legal environment that adversely affect the entity
- ✓ Increased interest rates or other rates of return on investments
- ✓ Net assets is more than its market capitalisation

### Internal Sources:

- ✓ Evidence of obsolescence / physical damage
- ✓ Plans to discontinue / restructure operations
- ✓ Evidence from internal reporting

# Definitions

Impairment loss - is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount

Carrying amount - is the amount at which an asset is recognised in the balance sheet after deducting

- ✓ any accumulated depreciation/ amortization &
- ✓ accumulated impairment losses, if any, there on

Cash-generating unit - is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Apply CGU concept when the asset does not generate cash inflows which are independent from other assets and the asset's fair value less costs of disposal also can not be determinable. If asset's fair value less cost of disposal is higher than its carrying value then the same asset has to be tested for impairment individually.

# Definitions (cont'd)

Recoverable Amount is the higher of an asset's:

- Fair value less costs of disposal
  - ✓ amount obtainable in arm's length transaction less costs of disposal (except reorganising, finance and tax costs)  
Test binding sale agreement, asset traded in an active market or best information available in the market: less costs of disposal (except reorganising, finance and tax costs)
- Value in use
  - ✓ present value of estimated future cash flows from continuing use of the asset and from its disposal at the end of its useful life
    - Cash flow projections
    - Discount rate



# Definitions (cont'd)

Cash flow projections constitutes:

- ✓ cash inflows from the continuing use of the asset
- ✓ cash outflows that are necessarily incurred to prepare the asset for continuing use and/or ready to use
- ✓ net cash in / out flows, if any, from its disposal

## Factors to consider

- ✓ short term - maximum 5 years, unless longer can be justified (steady or declining growth)
- ✓ based on recent financial budgets/forecasts approved by management
- ✓ estimation for the asset in its current condition (i.e. restructuring, reorganisation and capital expenditure on the assets ignored)
- ✓ exclude financial and taxation cash flows
- ✓ foreign currency future cash flows to be estimated and discounted in original currency

# Definitions (cont'd)

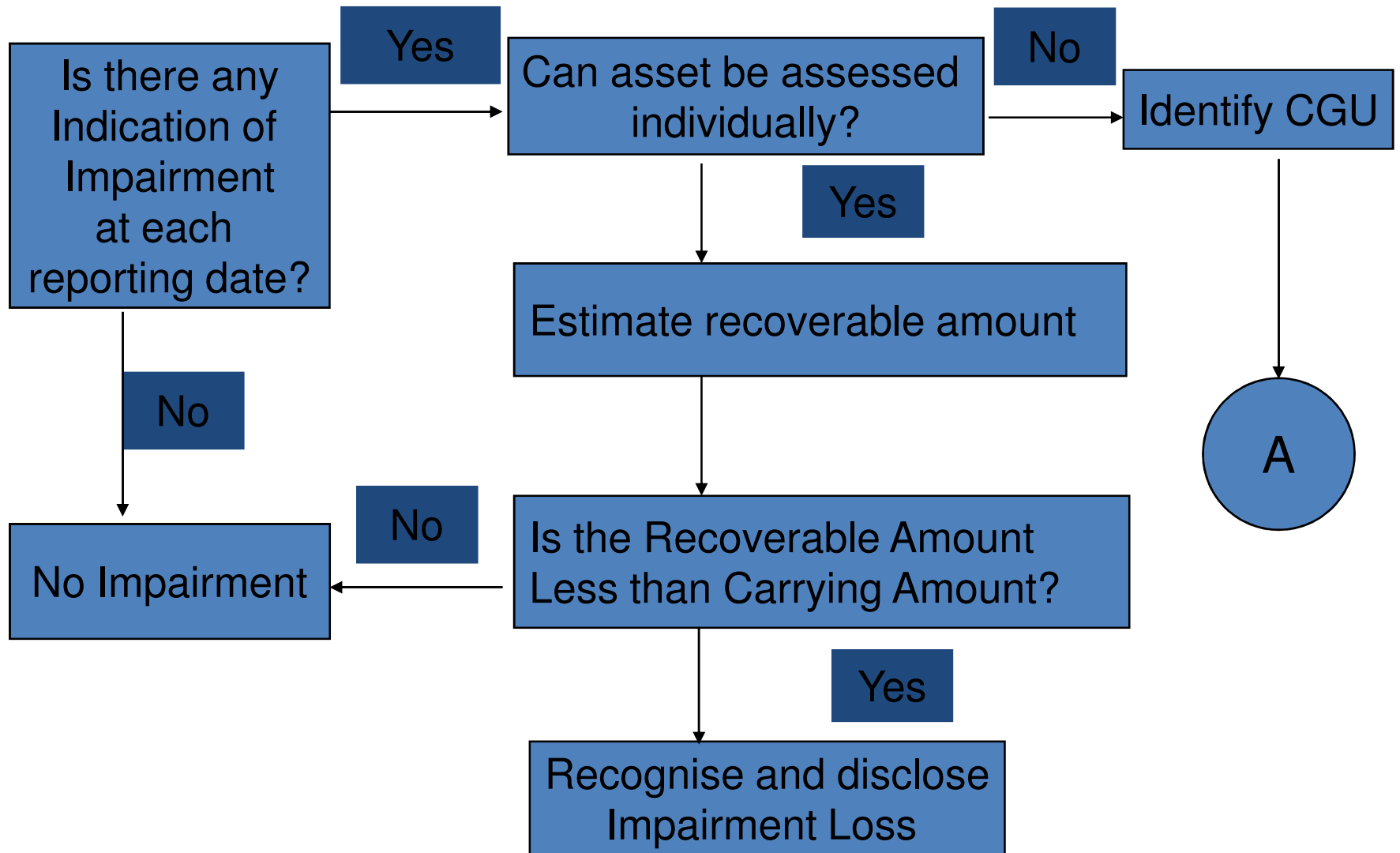
Discount rate should be:

- ✓ pre-tax rate that reflects current market assessment of the time value of money and
- ✓ the risks specific to the asset

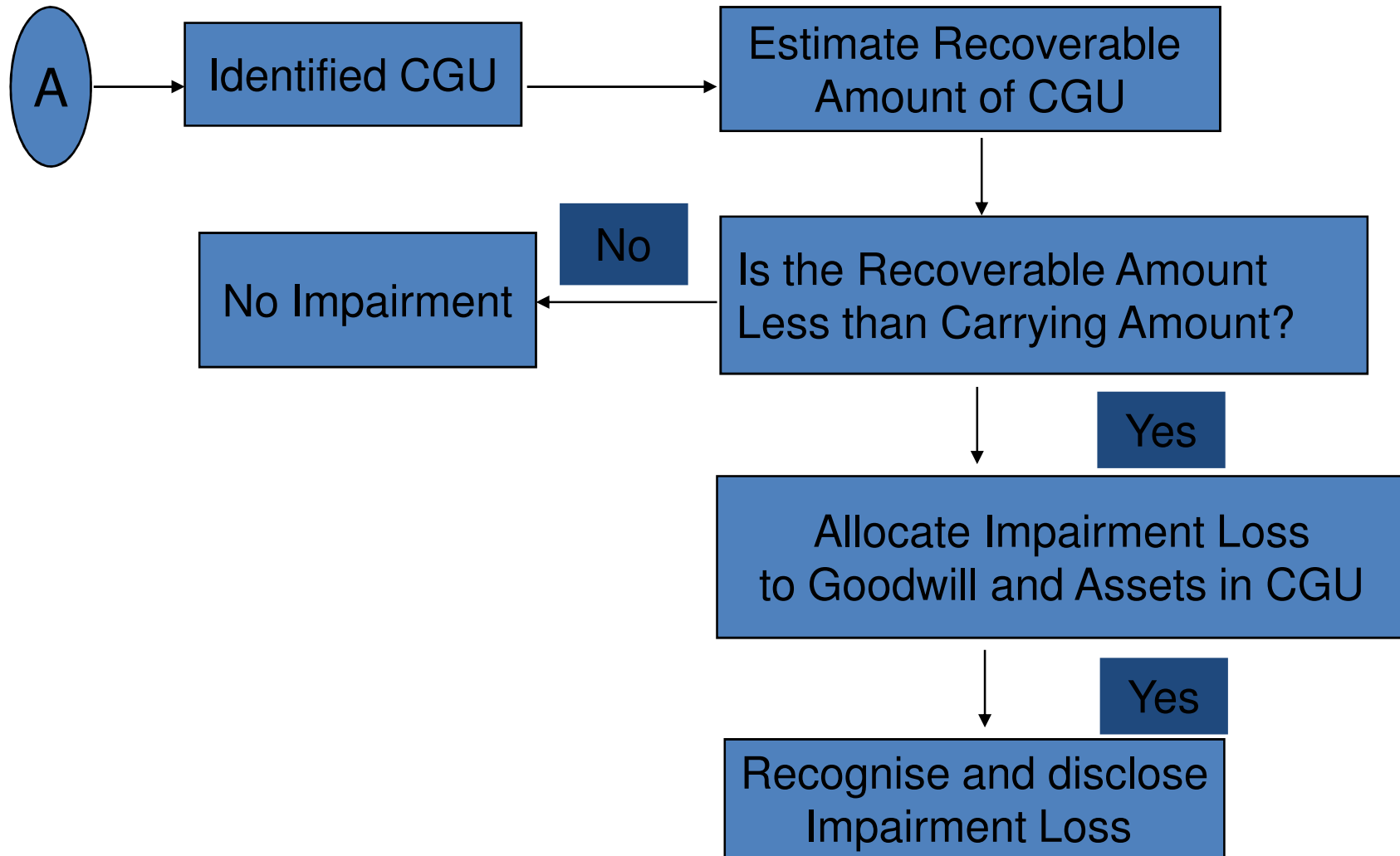
## Factors to consider

- ✓ discount rate is independent of the enterprise's capital structure
- ✓ the discount rate should be asset specific rate, if the same is not available then the following may be considered:
  - WACC
  - the enterprise's incremental borrowing rate or other market borrowing rate

# Decision tree (Impairment test)



# Decision tree (Impairment test)- (cont'd)



# Recognition and Measurement

IF Recoverable Amount < Carrying Amount of an Asset

**Impairment Loss =**

Carrying Amount less Recoverable Amount

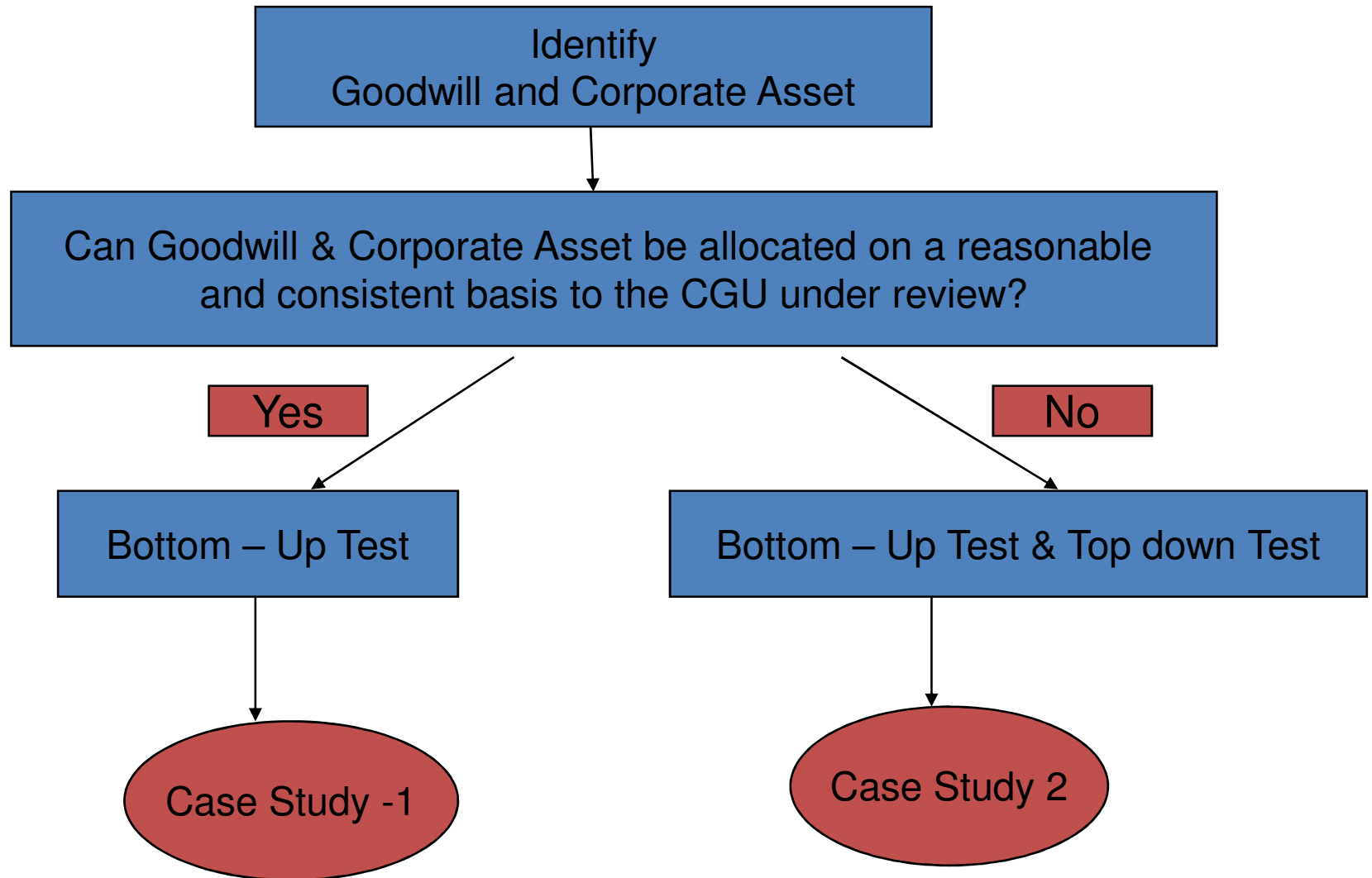
## Impairment loss to be recognised:

- As an expense in the P&L account (if there is no revaluation)
- As a decrease in revaluation reserve (if carried at revalued amount)

## After recognition:

- Adjust depreciation / amortisation charge for the asset in future periods
- Allocate the asset's revised carrying amount less residual value, on a systematic basis over its remaining useful life

# Impairing CGU



# Recognition of impairment loss for a CGU

- First write-down any goodwill allocated to the CGU
- Then, to the other assets of the CGU on pro rata on the basis of the carrying amount of each asset in the CGU

The carrying amount of an asset (which is part of CGU) should not be reduced below the highest of :

- (a) its net selling price (if determinable)
- (b) its value in use (if determinable)
- (c) Zero

The amount of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the CGU on a pro-rata basis.

# Reversal of Impairment

## Points to check at each reporting period

- Whether accumulated impairment loss may no longer exist or may have decreased (look for indicators -external and internal)
- Impairment loss except Goodwill can be reversed if, and only if, there has been a change in estimates (not because of increase in PV of cash flows as they become closer)
- Increased carrying amount not to exceed the carrying amount that would otherwise exist if no impairment loss had been recognised.



# Disclosure

For each class of assets, the financial statements should disclose:

- amount of impairment loss
- line item(s) of the income statement in which those impairment losses are included
- amount of reversals of impairment losses
- line item(s) of the income statement in which those impairment losses are reversed
- amount of impairment losses recognized directly against revaluation surplus
- amount of reversals of impairment losses recognized directly against revaluation surplus

# Disclosure (cont'd) Material Loss or Reversal

Enterprise should disclose

- Events and circumstances
- Amount of loss or reversal recognised
- Nature of asset/CGU
- Reported segment of asset/CGU
- CGU - if grouping has changed, describe current and former grouping and reasons for the change in grouping
- Recoverable amount - net selling price or value in use. Describe basis etc
- Main classes of assets affected by impairment losses or reversals
- Main events and circumstances that led to loss/reversal
- In case IFRS -8 is applicable, details of segment wise impairment/reversal should be disclosed.

# Thank You

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