



IAS 36 Impairment of Assets

Objective

To prescribe the procedures that an entity applies to ensure that its assets are carried at no more than its recoverable amount. An asset is carried at more than their recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the entity is required to recognise an impairment loss.

Scope

This Standard shall be applied in accounting for the impairment of all assets, other than:

- (a) Inventories;
- (b) Assets arising from construction contracts;
- (c) Deferred tax assets;
- (d) Assets arising from employee benefits;
- (e) Financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*;
- (f) Investment property that is measured at fair value;
- (g) Biological assets related to agricultural activity within the scope of IAS 41 *Agriculture* that are measured at fair value less costs to sell;
- (h) Deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4 *Insurance Contracts*; and
- (i) Non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Effective date

An entity shall apply this Standard:

- (a) to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004; and
- (b) to all other assets prospectively from the beginning of the first annual period beginning on or after 31 March 2004

Defined terms

An *impairment loss* is the amount by which the carrying amount of an asset or a cash generating unit exceeds its recoverable amount.

A *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.

The *carrying amount* is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

The *recoverable amount* is the higher of an asset's or cash generating unit fair value less costs of disposal and its value in use.

An assets *value in use* is the present value of the future cash flows expected to be derived from an asset or cash generating unit.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Useful life is:

- (a) the period of time over which an asset is expected to be used by an entity; or
- (b) the number of production or similar units expected to be obtained from the asset by an entity.

Identifying when as asset may be impaired

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, an entity shall also:

- (a) test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount
- (b) test goodwill acquired in a business combination for impairment annually.

As a minimum, the following indicators shall be considered:

<p>Internal sources</p> <ul style="list-style-type: none"> • Obsolescence or physical damage of an asset. • Current or future adverse changes in the extent to which, or manner in which, an asset is used. • Economic performance of an asset is, or will be, worse than expected. 	<p>External sources</p> <ul style="list-style-type: none"> • Significant decline in asset's market value. • Changes in technological, market, economic or legal environment. • Changes in market interest rates. • Low market capitalisation (the carrying amount of the net assets exceed the entity's market capitalisation). 	<p>Dividend from a subsidiary, joint venture or associate</p> <p>The investor recognises a dividend from the investment and evidence is available that:</p> <ul style="list-style-type: none"> • the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or • the dividend exceeds the total comprehensive income of the subsidiary, joint venture or associate in the period the dividend is declared
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Measuring recoverable amount

As stated, the recoverable amount is the **higher** of an asset's or cash-generating unit's fair value less costs of disposals and its value in use.

It is not always necessary to determine both an asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs unless either:

- (a) the asset's fair value less costs of disposal is higher than its carrying amount; or
- (b) the asset's value in use can be estimated to be close to its fair value less costs of disposal and fair value less costs of disposal can be measured.

Fair value less costs of disposal

- This is the amount obtainable from the sale of an asset or cash generating unit (CGU) in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.
- The best evidence of an asset's fair value less cost to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that are directly attributable to the disposal of the asset. If there is no binding sale agreement, but an asset is traded in an active market, the asset's market price less costs of disposal would provide the best evidence of fair value less cost to sell.
- If there is no sale agreement or active market for an asset, fair value less costs to sell is determined based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset through an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
- Cost of disposals include legal costs, stamp duty and similar transaction taxes, costs of removing the asset and direct incremental costs to bring an asset into condition for its sale.

Value in use

Estimate the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and apply the appropriate discount rate to those future cash flows:

Composition of estimates of future cash flows

Estimates of future cash flows shall include:

- (a) projections of cash inflows from the continuing use of the asset;
- (b) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- (c) net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Basis for estimates of future cash flows

In measuring value in use an entity shall:

- (a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions
- (b) base cash flow projections on the most recent financial budgets/forecasts approved by management.
- (c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years.

The discount rate(s) shall be a pre-tax rate(s) that reflect(s) current market assessments of:

- (a) the time value of money; and
- (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted.

For foreign currency, denominated future cash flows an entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Recognising an impairment loss

If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard.

Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another Standard.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Measuring recoverable amount of an intangible asset with an indefinite useful life

The recoverable amount of an intangible asset with an indefinite useful life or an intangible asset not yet available for use should be estimated annually irrespective of whether there is any indication of impairment in order to test the affected intangible asset for impairment.

Cash-generating units and Goodwill

Identifying the cash-generating unit to which an asset belongs

If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally.

If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- (a) the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- (b) the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Corporate assets

In testing a cash-generating unit for impairment, an entity shall identify all the corporate assets that relate to the cash-generating unit under review. If a portion of the carrying amount of a corporate asset:

- (a) can be allocated on a reasonable and consistent basis to that unit, the entity shall compare the carrying amount of the unit, including the portion of the carrying amount of the corporate asset allocated to the unit, with its recoverable amount. Any impairment loss shall be recognised.
- (b) cannot be allocated on a reasonable and consistent basis to that unit, the entity shall:
 - (i) compare the carrying amount of the unit, excluding the corporate asset, with its recoverable amount and recognise any impairment loss;
 - (ii) identify the smallest group of cash-generating units that includes the cash-generating unit under review and to which a portion of the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis; and
 - (iii) compare the carrying amount of that group of cash-generating units, including the portion of the carrying amount of the corporate asset allocated to that group of units, with the recoverable amount of the group of units.

Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated shall:

- (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
- (b) not be larger than an operating segment as defined by IFRS 8 *Operating Segments* before aggregation.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:

- (a) included in the carrying amount of the operation when determining the gain or loss on disposal; and
- (b) measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.

A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually and whenever there is an indication that the unit may be impaired.

Impairment loss for a cash-generating unit

An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units).

The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

- (a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and

- (b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

In allocating an impairment loss an entity shall not reduce the carrying amount of an asset below the highest of:

- (a) its fair value less costs of disposal (if measurable);
- (b) its value in use (if determinable); and
- (c) zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units).

A liability shall be recognised for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another IFRS.

Reversing an impairment loss

An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset as follows:

- (a) *Reversing an impairment loss for an individual asset*

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

- (b) *Reversing an impairment loss for a cash-generating unit*

A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for the individual assets within the cash-generating unit. In allocating the reversal of the impairment, the carrying amount of an asset shall not be increased above the lower of:

- (i) its recoverable amount (if determinable); and
- (ii) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

- (c) *Reversing an impairment loss for goodwill* – An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

Disclosure

An entity shall disclose the following for each class of assets:

In the Statement of Comprehensive Income

- (a) In profit or loss:
 - (i) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of comprehensive income in which those impairment losses are included;
 - (ii) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of comprehensive income in which those impairment losses are reversed.

In the Statement of Comprehensive Income

- (b) In other comprehensive income:
- (i) the amount of impairment losses on revalued assets recognised in other comprehensive income during the period; and
 - (ii) the amount of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.

In the Notes to the financial statement:

- (a) For an individual asset, for which an impairment loss has been recognised or reversed during the period:
- (i) the events and circumstances that led to the recognition or reversal of the impairment loss;
 - (ii) the amount of the impairment loss recognised or reversed;
 - (iii) the nature of the asset; and
 - (iv) if the entity reports segment information in accordance with IFRS 8 *Operating Segments* the reportable segment to which the asset belongs.
- (b) For a cash-generating unit, for which an impairment loss has been recognised or reversed during the period:
- (i) the events and circumstances that led to the recognition or reversal of the impairment loss;
 - (ii) the amount of the impairment loss recognised or reversed;
 - (iii) a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment);
 - (iv) the amount of the impairment loss recognised or reversed by class of assets and, if the entity reports segment information in accordance with IFRS 8 *Operating Segments*, by reportable segment; and
 - (v) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.
- (c) If the recoverable amount is:
- (i) fair value less costs of disposal, the entity shall disclose the following information:
 - the level of the fair value hierarchy (see IFRS 13 *Fair Value Measurement*) within which the fair value measurement of the asset (cash-generating unit) is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable);
 - for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal; and each key assumption on which management has based its determination of fair value less costs of disposal; or
 - (ii) value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use and key assumptions used to which the asset's (cash-generating unit's) recoverable amount is most sensitive.
- (d) An entity shall disclose the information required for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:
- (i) the carrying amount of goodwill allocated to the unit (group of units);

In the Notes to the financial statement:

- (ii) the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units);
- (iii) the basis on which the unit's (group of units') recoverable amount has been determined (i.e. value in use or fair value less costs of disposal).
- (iv) if the unit's (group of units') recoverable amount is based on value in use:
 - each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.
 - a description of management's approach to determining the value(s) assigned to each key assumption, whether those value(s) reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
 - the period over which management has projected cash flows based on financial budgets/forecasts approved by management and, when a period greater than five years is used for a cash-generating unit (group of units), an explanation of why that longer period is justified.
 - the growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using any growth rate that exceeds the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market to which the unit (group of units) is dedicated.
 - the discount rate(s) applied to the cash flow projections.
- (v) Or if the unit's (group of units') recoverable amount is based on fair value less costs of disposal, the valuation technique(s) used to measure fair value less costs of disposal. An entity is not required to provide the disclosures required by IFRS 13 *Fair value measurement*. If fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), an entity shall disclose the following information:
 - each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.
 - a description of management's approach to determining the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from past experience or external sources of information.
 - the level of the fair value hierarchy within which the fair value measurement is categorised in its entirety (without giving regard to the observability of 'costs of disposal').
 - if there has been a change in valuation technique, the change and the reason(s) for making it.
- (vi) And if fair value less costs of disposal is measured using discounted cash flow projections, an entity shall disclose the following information:
 - the period over which management has projected cash flows.
 - the growth rate used to extrapolate cash flow projections.
 - the discount rate(s) applied to the cash flow projections.