IAS 36 IMPAIRMENT OF ASSETS

FACT SHEET

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This fact sheet is based on existing requirements as at 31 December 2015, and does not take into account recent standards and interpretations that have been issued but are not yet effective.

IMPORTANT NOTE

This fact sheet is based on the requirements of the International Financial Reporting Standards (IFRSs). In some jurisdictions, the IFRSs are adopted in their entirety; in other jurisdictions the individual IFRSs are amended. In some jurisdictions the requirements of a particular IFRS may not have been adopted. Consequently, users of the fact sheet in various jurisdictions should ascertain for themselves the relevance of the fact sheet to their particular jurisdiction. The application date included below is the effective date of the initial version of the standard.

IASB APPLICATION DATE (NON-JURISDICTION SPECIFIC)

IAS 36 is applicable for annual reporting periods commencing on or after 1 January 2005.

OBJECTIVE

IAS 36 prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amounts. An asset would be carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. Where this occurs, the asset is described as impaired and IAS 36 requires the entity to recognise an impairment loss. It also specifies when an entity shall reverse an impairment loss and prescribes disclosures.

SCOPE

IAS 36 applies in accounting for impairment of all assets but does not apply to the impairment of:

- inventories (see IAS 2 *Inventories)*;
- assets arising from construction contracts (see IAS 11 *Construction Contracts*);
- deferred tax assets (see IAS 12 *Income Taxes*);
- assets arising from employee benefits (see IAS 19 *Employee Benefits*);
- financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*;
- investment property that is measured at fair value (see IAS 40 *Investment Property*);
- biological assets related to agricultural activity that are measured at fair value less estimated point-of-sale costs (see IAS 41 *Agriculture*);
- 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
- 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*.

RECOGNITION AND MEASUREMENT

Cash-generating unit (CGU)

It may not be possible to assess an individual asset for an indication of impairment because the asset does not generate cash inflows that are largely independent of those from other assets and the asset's value in use cannot be estimated to be close to its fair value less costs of disposal. In such cases, impairment testing is performed at the level of the CGU. CGU must comprise assets which are to be identified consistently from period to period, unless a change is justified. The carrying amount of a CGU shall be determined on a basis consistent with the way the recoverable amount of the CGU is determined. References to an asset in the remainder of this section include references to CGUs.

Identifying an asset that may be impaired

At the end of each reporting period; an entity assesses whether there are any indicators of impairment for any asset in the scope of IAS 36.

In addition to this requirement, the following assets are tested for impairment regardless of whether an indicator exists:

- goodwill;
- indefinite life intangible asset; and
- intangible asset not yet available for use.

Indicators of impairment

The following are example indicators of impairment:

- External sources of information
  - decline in the market value of the asset;
  - adverse changes in the technological, market, economic or legal environment in which the entity operates;
  - market interest rates or other market rates of return on investment have increased;
  - net assets of the entity are greater than its market capitalisation.
- Internal sources of information
  - the asset is obsolete or has physical damage;
  - adverse changes on the manner that the asset is used (e.g. asset becomes idle);
  - economic performance of an asset is, or will be, worse than expected.

Measuring recoverable amount

Recoverable Amount	= HIGHER OF:	Fair Value Less Costs of Disposal	or	Value in Use

Where:

- Fair value less costs of disposal is the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less the costs of disposal. Under AASB 13, there are three levels of fair value hierarchy for inputs to measure fair value:

Unadjusted quoted prices in **active markets** for identical assets or liabilities

LEVEL 1

Inputs other than **quoted prices** included in **Level 1** that are **observable,** either directly or indirectly

LEVEL 2

Unobservable inputs

LEVEL 3

- The following elements are reflected in the calculation of an asset's value in use:
  - An estimate of the future cash flows the entity expects to derive from the asset;
  - Expectations about possible variations in the amount of timing or 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.
- Estimating the value in use of an asset involves the following steps:
  - Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal. The cash flows are based on budgets and forecasts after excluding any estimated cash inflows and outflows associated with enhancements to the asset's performance and cash flows from financing activities or income tax receipts or payments. Risk factors are included in either the cash flows or the discount rate, and not in both. Projections should cover a maximum period of five years unless a longer period can be justified.
  - Applying the appropriate discount rate to those future cash flows. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognising and measurement of an impairment loss

Where an asset's recoverable amount is less than that asset's carrying amount, the carrying amount must be reduced to the recoverable amount of the asset and the reduction amount (impairment loss) shall be recognised as an expense.

If the asset is carried at a revalued amount, the impairment loss is treated as a revaluation decrease in accordance with the relevant accounting standard.

Allocation of an impairment loss in a CGU

In the case of a CGU, any impairment loss is allocated:

- first to reduce the carrying amount of any goodwill allocated to the CGU
- then to other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU

Carrying amounts of individual assets within a CGU must not be reduced below the highest of fair value less costs of disposal (if determinable), value in use (if determinable) or zero.

Timing of recoverable amount testing

The impairment testing for intangible assets which need to be tested on an annual basis (i.e. goodwill, indefinite life intangibles and intangibles not yet available for use) need not be performed at the end of the reporting period as long as it is conducted at the same time each year.

Different intangible assets may be tested for impairment at different times.

However, where such an asset was initially recognised during the current period, that asset shall be tested for impairment before the end of the current annual period.

Reversal of 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.

An impairment loss recognised for goodwill cannot be reversed.

Where an indication of impairment reversal exists, the asset's recoverable amount is assessed. If the impairment loss has reversed, the increased carrying amount cannot exceed the carrying amount (net of depreciation or amortisation) that would have been determined had no impairment loss been recognised in prior year.

A reversal of an impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with IAS 16 in which case the reversal is treated as a revaluation increase in accordance with IAS 16. After reversal, the depreciation/amortisation charge is 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.

In reversing an impairment loss for a cash-generating unit, the reversal is allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. In allocating the reversal amount, the carrying amount of an asset is not increased above the lower of its recoverable amount and the carrying amount (net of depreciation or amortisation) that would have been determined had no impairment loss been recognised in prior periods.

DISCLOSURES

Refer Appendix 1 for a checklist to assist with IAS 36 disclosure requirements.

DEFINITIONS

Carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and any accumulated impairment losses thereon.
Cash-generating unit	The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
Corporate assets	Assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.
Costs of disposal	Incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.
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 (see IFRS 13 *Fair Value Measurement*).
Impairment loss	The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount
Recoverable amount	The higher of its fair value less costs of disposal and its value in use.
Useful life	Either the period of time over which an asset is expected to be used by the entity; or the number of production or similar units expected to be obtained from the asset by the entity.
Value in use	The present value of the future cash flows expected to be derived from an asset or cash-generating unit.

RELATED INTERPRETATION

- IFRIC 10 *Interim Financial Reporting and Impairment* addresses the following issue:

Should an entity reverse impairment losses recognised in an interim period on goodwill if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period?

The consensus provided in IFRIC 10 is that an entity should not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

AUSTRALIAN SPECIFIC REQUIREMENTS

The Australian equivalent standard is AASB 136 *Impairment of Assets*.

Value in use

In respect of not-for-profit entities, value in use is depreciated replacement cost of an asset when:

- The future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows; and
- Where the entity would, if deprived of the asset, replace its remaining future economic benefits.

Impairment loss on revalued assets

For not-for-profit entities, an impairment loss on a revalued asset is recognised on other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the class of asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for the class of asset.

ADDITIONAL DEFINITIONS

Not-for-profit entity	An entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent and each of the entities that it controls.
Depreciated replacement cost	The current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

REDUCED DISCLOSURE REQUIREMENTS (RDR)

On 30 June 2010, the Australian Accounting Standards Board published AASB 1053 *Application of Tiers of Australian Accounting Standards* (and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements*) which established a differential reporting framework, consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

a. Tier 1: Australian Accounting Standards; and

b. Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

A Tier 2 entity is a 'reporting entity' as defined in SAC 1 *Definition of the Reporting Entity* that does not have 'public accountability' as defined in AASB 1053 and is not otherwise deemed to be a Tier 1 entity by AASB 1053.

RDR is applicable to annual periods beginning on or after 1 July 2013.

The requirements that do not apply to RDR entities are identified in Appendix 1 by shading of the relevant text.

APPENDIX 1 – DISCLOSURE CHECKLIST

This checklist can be used to review your financial statements. You should complete the "Yes / No / N/A" column about whether the requirement is included. To ensure the completeness of disclosures, provide an explanation for "No" answers.

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 36.126	Has the entity disclosed the following information for each class of assets: a. 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; b. 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; c. the amount of impairment losses on revalued assets recognised in other comprehensive income during the period; and d. the amounts of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period?		
IAS 36.129	Where an entity reports segment information in accordance with IFRS 8, has the entity disclosed the following for each reportable segment: a. the amount of impairment losses recognised in profit or loss and in other comprehensive income during the period; and b. the amount of reversals of impairment losses recognised in profit or loss and in other comprehensive income during the period?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 36.130	Has the entity disclosed the following information for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit: a. the events and circumstances that led to the recognition or reversal of the impairment loss; b. the amount of impairment loss recognised or reversed; and c. for an individual asset: – the nature of the asset; and – if the entity reports segment information in accordance with IFRS 8, the reportable segment to which the asset belongs; d. for a cash-generating unit: – 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, as defined in IFRS 8); – the amount of the impairment loss recognised or reversed by class or assets and, if the entity reports segment information in accordance with IFRS 8, by reportable segment; and – 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; and e. the recoverable amount of the asset (cash-generating unit) and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use; f. if recoverable amount is fair value less costs of disposal: – the level of the fair value hierarchy 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)		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 36.130	– 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. If there has been a change in valuation technique, the change and the reason(s) for making the change should be disclosed – for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive. The discount rate(s) used in the current measurement and previous measurement should be disclosed if fair value less costs of disposal is measured using a present value technique g. if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use?		
IAS 36.131	Has the entity disclosed the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 130: a. the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses; and b. the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses?		
IAS 36.133	If any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, has the entity disclosed the amount of the unallocated goodwill together with the reasons why that amount remains unallocated?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 36.134	Has the entity disclosed the information listed below 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: a. the carrying amount of goodwill allocated to the unit (group of units); b. the carrying amount of intangible assets with indefinite useful lives allocated to the unit (group of units); c. the recoverable amount of the unit (group of units) and 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); d. if the unit's (group of units') recoverable amount is based on value in use: – a description of 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, of for the market to which the unit (group of units) is dedicated; and – the discount rate(s) applied to the cash flow projections;		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 36.134	e. if the unit's (group of units') recoverable amount is based on fair value less costs of disposal, the valuation technique used to measure fair value less costs of disposal. If fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), the following information shall also be disclosed: – 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 descriptio n 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 (see IFRS 13) 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. If fair value less costs of disposal is measured using discounted cash flow projections, the following information shall also be disclosed: – 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; f. if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount: – the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount; – the value assigned to the key assumption; and – the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount?		

CODE		YES / NO / N/A	EXPLANATION (*If required*)
IAS 36.135	If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple cash-generating units (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units). In addition, if the recoverable amounts of any of those units (groups of units) are based on the same key assumption(s) and the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to them is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, has the entity disclosed that fact, together with: a. the aggregate carrying amount of goodwill allocated to those units (groups of units); b. the aggregate carrying amount of intangible assets with indefinite useful lives allocated to those units (groups of units); c. a description of the key assumption(s); d. a description of management's approach to determining the value(s) assigned to the key assumption(s), 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 source of information; e. if a reasonably possible change in the key assumption(s) would cause the aggregate of the units' (groups of units') carrying amounts to exceed the aggregate of their recoverable amounts: – the amount by which the aggregate of the units' (groups of units') recoverable amounts exceeds the aggregate of their carrying amounts; – the value(s) assigned to the key assumption(s); and – the amount by which the value(s) assigned to the key assumption(s) must change, after incorporating any consequential effects of the change on the other variables used to measure recoverable amount, in order for the aggregate of the units' (groups of units) recoverable amounts to be equal to the aggregate of their carrying amounts?		

OTHER MATTERS

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