IAS 36 Impairment of Assets

(This fact sheet is based on the standard as at 1 January 2011.)

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 most recent changes made to the standard.

IASB application date (non-jurisdiction specific)
IAS 36 is applicable for annual reporting periods commencing on or after 1 January 2010.

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
- 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.

PRESCRIBED ACCOUNTING TREATMENT
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 to sell. 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
- 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

\[
\text{Recoverable Amount} = \text{Higher of: Fair Value less Selling Costs or Value in Use}
\]

where:

- fair value less costs to sell is best evidenced by:
  1. a price in a binding sale agreement in an arm’s length transaction;
  2. asset’s market price in an active market;
  3. the price of the most recent transaction; or
  4. best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm’s length transaction between knowledgeable, willing parties.

- The following elements are reflected in the calculation of an asset’s value in use:
  1. An estimate of the future cash flows the entity expects to derive from the asset;
  2. Expectations about possible variations in the amount of timing of those future cash flows;
  3. The time value of money, represented by the current market risk-free rate of interest;
  4. The price for bearing the uncertainty inherent in the asset; and
  5. 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:
  1. 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 both. Projections should cover a maximum period of 5 years unless a longer period can be justified.
  2. 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 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 re-valued 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 and
- 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 fair value less costs to sell (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 period.

Reversal of an impairment loss

At each end of reporting period, the entity shall assess whether there is any indication that a recognised impairment loss for assets (other than goodwill) may have been reversed.

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.

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, 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.

IMPORTANT DEFINITIONS

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Active market</td>
<td>a market in which all of the following conditions exist: the items traded within the market are homogeneous; willing buyers and sellers can normally be found at any time; and prices are available to the public.</td>
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<tr>
<td>Carrying amount</td>
<td>the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and any accumulated impairment losses</td>
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<tr>
<td>Cash-generating unit</td>
<td>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</td>
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<tr>
<td>Corporate assets</td>
<td>assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units</td>
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International Financial Reporting Standards (IFRS)

<table>
<thead>
<tr>
<th><strong>Costs of disposal</strong></th>
<th>Incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense</th>
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<tbody>
<tr>
<td><strong>Fair value less costs to sell</strong></td>
<td>The amount obtainable from the sale of an asset or cash-generating unit in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal</td>
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<tr>
<td><strong>Impairment loss</strong></td>
<td>The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount</td>
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<td><strong>Recoverable amount</strong></td>
<td>The higher of its fair value less costs to sell and its value in use</td>
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<td><strong>Useful life</strong></td>
<td>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</td>
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<tr>
<td><strong>Value in use</strong></td>
<td>The present value of the future cash flows expected to be derived from an asset or cash-generating unit</td>
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**AUSTRALIAN SPECIFIC REQUIREMENTS**

The Australian equivalent standard is AASB 136 which is applicable for annual reporting periods beginning on or after 1 January 2010.

**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 flows; and
- where the entity would replace the asset if deprived of it.

**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.

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.
## 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 and provide an explanation for No answers to ensure the completeness of disclosures.

<table>
<thead>
<tr>
<th>IAS 36: Impairment of Assets – Applicable for financial statement periods beginning on or after 1 January 2010.</th>
<th>Yes / No / N/A</th>
<th>Explanation (if required)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAS 36.126 Has the entity disclosed the following information for each class of assets?</td>
<td></td>
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<tr>
<td>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</td>
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<tr>
<td>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</td>
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<tr>
<td>c) The amount of impairment losses on revalued assets recognised in other comprehensive income during the period.</td>
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<tr>
<td>d) the amounts of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.</td>
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<tr>
<td>IAS 36.129 Where an entity reports segment information in accordance with IFRS 8, has the entity disclosed the following for each reportable segment:</td>
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<tr>
<td>a) the amount of impairment losses recognised in profit or loss and in other comprehensive income during the period</td>
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<tr>
<td>b) the amount of reversals of impairment losses recognised in profit or loss and in other comprehensive income during the period.</td>
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<tr>
<td>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?</td>
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<tr>
<td>a) the events and circumstances that led to the recognition or reversal of the impairment loss</td>
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<tr>
<td>b) the amount of impairment loss recognised or reversed</td>
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<tr>
<td>c) for an individual asset: (i) the nature of the asset and (ii) if the entity reports segment information in accordance with IFRS 8, the reportable segment to which the asset belongs</td>
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<td>d) for a cash-generating unit</td>
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<tr>
<td>i. 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)</td>
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<tr>
<td>ii. 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</td>
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<tr>
<td>iii. 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</td>
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<tr>
<td>e) whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs to sell or its value in use;</td>
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</table>
| **f)** if recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market); and  
| **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? |
| **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 basis on which the unit’s (group of units’) recoverable amount has been determined (i.e. value in use or fair value less costs to sell);  
d) if the unit’s (group of units’) recoverable amount is based on value in use:  
  i. 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;  
  ii. 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  
  iii. 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;  
  iv. 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;  
  v. the discount rate(s) applied to the cash flow projections; |
e) if the unit’s (group of units’) recoverable amount is based on fair value less costs to sell, the methodology used to determine fair value less costs to sell. If fair value less costs to sell is not determined using an observable market price for the unit group of units), the following information shall also be disclosed:

i. a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the unit’s (group of units’) recoverable amount is most sensitive.

ii. 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.

If fair value less costs to sell is determined using discounted cash flow projections, the following information shall also be disclosed:

iii. the period over which management has projected cash flows;

iv. the growth rate used to extrapolate cash flow projections;

v. 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:

i. the amount by which the unit’s (group of units’) recoverable amount exceeds its carrying amount;

ii. the value assigned to the key assumption; and

iii. 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.

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);
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<tr>
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<tr>
<td>c)</td>
<td>a description of the key assumption(s);</td>
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<tr>
<td>d)</td>
<td>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</td>
</tr>
<tr>
<td>e)</td>
<td>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:</td>
</tr>
<tr>
<td></td>
<td>i. the amount by which the aggregate of the units’ (groups of units’) recoverable amounts exceeds the aggregate of their carrying amounts;</td>
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<tr>
<td></td>
<td>ii. the value(s) assigned to the key assumption(s); and</td>
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<tr>
<td></td>
<td>iii. 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 amount.</td>
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OTHER MATTERS

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