

IAS 36 IMPAIRMENT OF ASSETS

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IAS 36 IMPAIRMENT OF ASSETS

Effective date beginning on or after 31st March 2004.

OBJECTIVE

To ensure that assets are carried at no more than their recoverable amount and to determine how recoverable amount is determined.

SCOPE

IAS 36 applies to all except

- Inventories(IAS 2)
- Construction contract.(IAS 11)
- Deferred tax assets.(IAS 12)
- Employee benefits.(IAS 19)
- Financial assets.(IAS 9)
- Investment property(IAS 40)
- Agricultural asset.(IAS 41)
- Insurance contract.(IFRS 4)
- Non-current asset held for sale.(IFRS 5)

Therefore, it applies to:

- Land, buildings, machinery and equipment(IAS 16)
- Investment property carried at cost(IAS 40)
- Intangible assets(IAS 38)
- Goodwill
- Investment in subsidiaries associates and joint ventures carried at cost.

DEFINITIONS

Impairment Loss-An asset is impaired when its carrying amount of the asset or cash- generating unit exceeds its recoverable amount.

Carrying Amount- The amount at which an asset is recognized in the balance sheet deducting accumulated depreciation and accumulated impairment losses.

Recoverable amount- the higher of an asset's fair value less cost of disposal/ value in use.

$$\text{Carrying amount (-) Recoverable amount} = \text{Impairment loss}$$

Fair value- 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.

Value in use- The present value of the future cash flows expected to be derived from an asset or cash- generating unit.

IDENTIFYING ASSET IMPAIRMENT/INDICATIONS OF IMPAIRMENT

At the end of each reporting period, an entity is required to assess whether there is any indication external or internal that an asset may be impaired. If there is an indication that an asset may be impaired then asset's recoverable amount must be calculated.

Intangibles with indefinite useful life and intangibles not yet available for use will require annual test for impairment.

Indications of impairment:

- External sources-
- Market value declines.
- Negative changes in technology, markets, economy, or laws
- Increase in market interest rates.
- Net asset of the company higher than market capitalization.

Internal sources-

- Obsolescence or physical damage.
- Asset is idle, part of reconstructing or held for disposal
- Asset performance is declined.

RECOGNITION OF RECOVERABLE AMOUNT

If fair value or cost of disposal or value in use is more than carrying amount then there is no need of impairment

If fair value (-) cost of disposal is not determined then recoverable amount is used.

Recognition of impairment loss is done when the carrying amount is higher than recoverable amount.

Impairment loss is recognized as an expense.

Adjust depreciation for future periods.

ILLUSTRATIVE DISCLOSURES

Calculation of carrying amount of ABC cash generating unit at the end of 2018:

	Goodwill	Identifiable Assets	Total
Beginning of 2017-			
Historical cost	3000	4000	7000
Accumulated Depreciation		-1055	-1055
Impairment Loss	-3000	-520	-3520
Carrying amount after impairment loss	0	2425	2425
End of 2018			
Additional depreciation		-450	-450
		1975	1975
Recoverable amount-			2560
Excess of amount over recoverable amount-			585

NOTES AND DISCLOSURES

- No reversal for unwinding of discount.
- It must be recognized in profit or loss unless it relates to a revalued asset.
- Adjust depreciation for future periods.
- Reversal for impairment loss for goodwill is prohibited.

Disclosure:

- Impairment losses recognized / reversed in P/L
- Impairment losses on revalued assets recognized/reversed in other comprehensive income.
- Disclosure by reportable segment-
- Impairment losses recognized/reversed.

REVERSAL OF IMPAIRMENT LOSS

Assess at end of current period whether there is an indication that an impairment loss may have been decreased or no longer exists.

External-

- Increase in market value
- Significant changes(market, technology, legal, economic)
- Decrease in interest rates.

Internal-

- Significant changes(reconstructing ,enhancement)
- Internal reporting evidence.