IAS 36 Impairment of Assets

SCOPE

This Standard shall be used to account for the impairment of all assets, except:

- Inventories
- Contract assets and assets arising from costs to obtain or fulfill a revenue contract
- Deferred tax assets
- Assets from employee benefits
- Financial assets that are within scope of IFRS 9
- Investment property that is measured at fair value
- Biological assets related to agricultural activity within the scope of IAS 41 that are measured at fair value less costs to sell
- Deferred acquisition costs, and intangible assets arising from an insurer's contractual rights in insurance contracts
- Non-current assets that are held-for-sale as part of discontinued operations

IDENTIFYING AN ASSET THAT 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 indication exists, the entity shall estimate the recoverable amount of the asset. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, at a minimum, the following indications. The lists below are not exhaustive:

External Sources of Information

- Indications that the asset's value has declined significantly more than would be expected.
- Significant changes with an adverse effect on the entity have taken or will take place, in the technological, market, economic or legal environment.
- Market interest rates have increased and are likely to affect the discount rate in calculating an asset's value in use and decrease its recoverable amount materially.
- The carrying amount of the net assets of the entity is more than its market capitalization.

Internal Sources of Information

- Evidence of obsolescence or physical damage of an asset
- Significant changes with an adverse effect on the entity have taken or are expected to take place, in the extent to which, or manner in which, an asset is used or expected to be used.
- Evidence is available that indicates the economic performance of the asset is worse than expected.

Dividend from Subsidiary, Joint Venture, or Associate

- The investor recognizes a dividend from the investment and evidence is available that:
  - (i) the carrying amount of the investment in the separate F/S exceeds the carrying amount in the F/S of the investee's net assets, or
  - (ii) the dividend exceeds the total comprehensive income of the investee.

Irrespective of whether there is any Indication of Impairment, an Entity Shall Also Test

An intangible asset with an indefinite useful life or an intangible asset not yet available for use:

- Compare its carrying amount with its recoverable amount.
- The impairment test may be performed at any time during an annual period, provided it is performed at the same time every year.

Goodwill acquired in business combination:

- Shall be allocated to each of the cash generating units ('CGU') or groups of CGUs, that 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 CGUs or groups of CGUs.
- Each CGU or group of CGUs to which the goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.
- If the initial allocation of goodwill cannot be completed before the end of the annual period in which the business combination is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.
- If goodwill has been allocated to a CGU and the entity disposes of an operation within that unit the goodwill shall be included in the carrying amount of the operation when determining the gain or loss on disposal and measured on the basis of the relative values of the operation disposed and the CGU retained.

MEASURING RECOVERABLE AMOUNT

Higher of:

- Fair value less costs of disposal - 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 future cash flows expected to be derived from an asset or cash generating unit.

Calculation of Value in Use

The following elements shall be reflected in the calculation of an asset's value in use:

- An estimate of the cash flows the entity expects to derive from the asset.
- Expectations about possible variations in the amount or timing of 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.

Estimates and other factors

- Estimates shall be based on reasonable and supportable assumptions representing management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset.
- Estimates shall be based on the most recent financial budgets / forecasts approved by management, extrapolating using a steady or declining growth rate for years beyond the budgets / forecasts.
- Estimates of future cash flows shall include projections from cash outflows from continuing use of the asset that are necessarily incurred to generate the cash inflows from continuing use of the asset.
- Future cash flows shall be estimated for the asset in its current condition.
- Estimates of cash flows shall not include cash flows from financing activities or income tax.
- The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount the entity expects to obtain in an arm's length transaction.
- **The discount rate shall be 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 cash flow estimates have not been adjusted.**

IAS 36 Impairment of Assets

RECOGNIZING AND MEASURING AN IMPAIRMENT LOSS

Individual Assets other than Goodwill	Cash Generating Units and Goodwill
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. • Recognize immediately in P/L, unless the asset is carried at revalued amount - impairment loss of a revalued asset shall be treated as a decrease in accordance with the respective 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 recognize a liability if that is required by another Standard. • After the recognition of an impairment loss, the depreciation (amortization) 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 systemic basis over its remaining useful life.	If it is not possible to estimate the recoverable amount of the individual asset, the entity shall determine the recoverable amount of the CGU to which the asset belongs. • 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 the CGU. • Use management's best estimate of future prices that could be achieved in an arm's length transaction in estimating the future cash inflows used to determine the value in use and the future cash outflows used to determine the value in use of any other affected assets or CGUs.

REVERSING AN IMPAIRMENT LOSS

Assess at the end of each reporting period whether there is an indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or decreased.

- Estimate recovery amount – any impairment loss recognized in prior periods other than goodwill shall be reversed to its recoverable amount, and the change shall be recognized in P/L.