



# IAS 36

## IMPAIRMENT OF ASSETS

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# 1 OVERVIEW

- IAS 36 ensures that assets are carried no more than their recoverable amount.
- IAS 36 was issued in 1988.

## 2

## SCOPE

IAS 36 applies to financial assets classified as:

- PPE (IAS 16);
- Investment property at cost (IAS 40);
- Intangible assets (IAS 38);
- Goodwill;
- Subsidiaries, associates, and joint ventures at cost;
- Assets at revalued amounts according to IAS 16 or IAS 38.



## 2

## SCOPE (*cont.*)

IAS 36 does NOT apply to:

- Inventories (IAS 2);
- Construction contracts (IAS 11);
- Deferred tax assets (IAS 12);
- Employee benefit (IAS 19);
- Financial assets (IFRS 9);
- Non-current assets held-for-sale (IFRS 5);
- Insurance contract (IFRS 4)
- Investment property and agricultural assets at FV (IAS 40 và IAS 41).

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## DEFINITIONS

- ❑ **Carrying amount** is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.
- ❑ **The recoverable amount** is equal to the higher of
  - Fair value less costs of disposal;
  - Value in use: present value of the future cash flows expected to be derived from an asset.
- ❑ **The impairment loss** is the difference between
  - Carrying amount;
  - Recoverable amount.

## 4 INDICATION OF IMPAIRMENT



### External sources

- Decline in market value
- Significant changes (Market, technology, legal, economic)
- Increase in interest rates
- CA > market capitalization

### Internal sources

- Obsolescence / physical damage
- The asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs
- The economic performance of an asset is, or will be, worse than expected

- ❑ The standard also summarizes signs related to the impairment losses from investments in subsidiaries, associates and joint ventures.



## 4 INDICATION OF IMPAIRMENT (cont.)

- ❑ Some assets will show no signs of decreasing in value
  - Intangible assets with unlimited useful life
  - Goodwill arising from a business combination
- An entity must periodically check these assets to determine whether the assets are depreciating in value or not.
  
- ❑ The impairment of losses will ensure the principle of prudence.



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## MEASURING RECOVERABLE AMOUNT (cont.)

- ❑ **Recoverable amount:** as the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use.
- ❑ 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.

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## MEASURING RECOVERABLE AMOUNT (cont.)

- ☐ If fair value less costs to sell or value in use is more than carrying amount, it is not necessary to calculate the other amount. The asset is not impaired. [IAS 36.19]
- ☐ If fair value less costs to sell cannot be determined, then recoverable amount is value in use. . [IAS 36.20]
- ☐ For assets to be disposed of, recoverable amount is fair value less costs to sell. [IAS 36.21]

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## MEASURING RECOVERABLE AMOUNT (cont.)

❑ **Value in use** is the present value of the future cash flows expected to be derived from an asset or CGU. 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; and
- Applying the appropriate discount rate to those future cash flows.



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## MEASURING RECOVERABLE AMOUNT (cont.)

□ Two approaches:

- Most likely cash flows from use and disposal discounted using risk-adjusted discount rate;
- Probability-weighted cash flows from use and disposal discounted using remaining risk-adjusted discount rate.



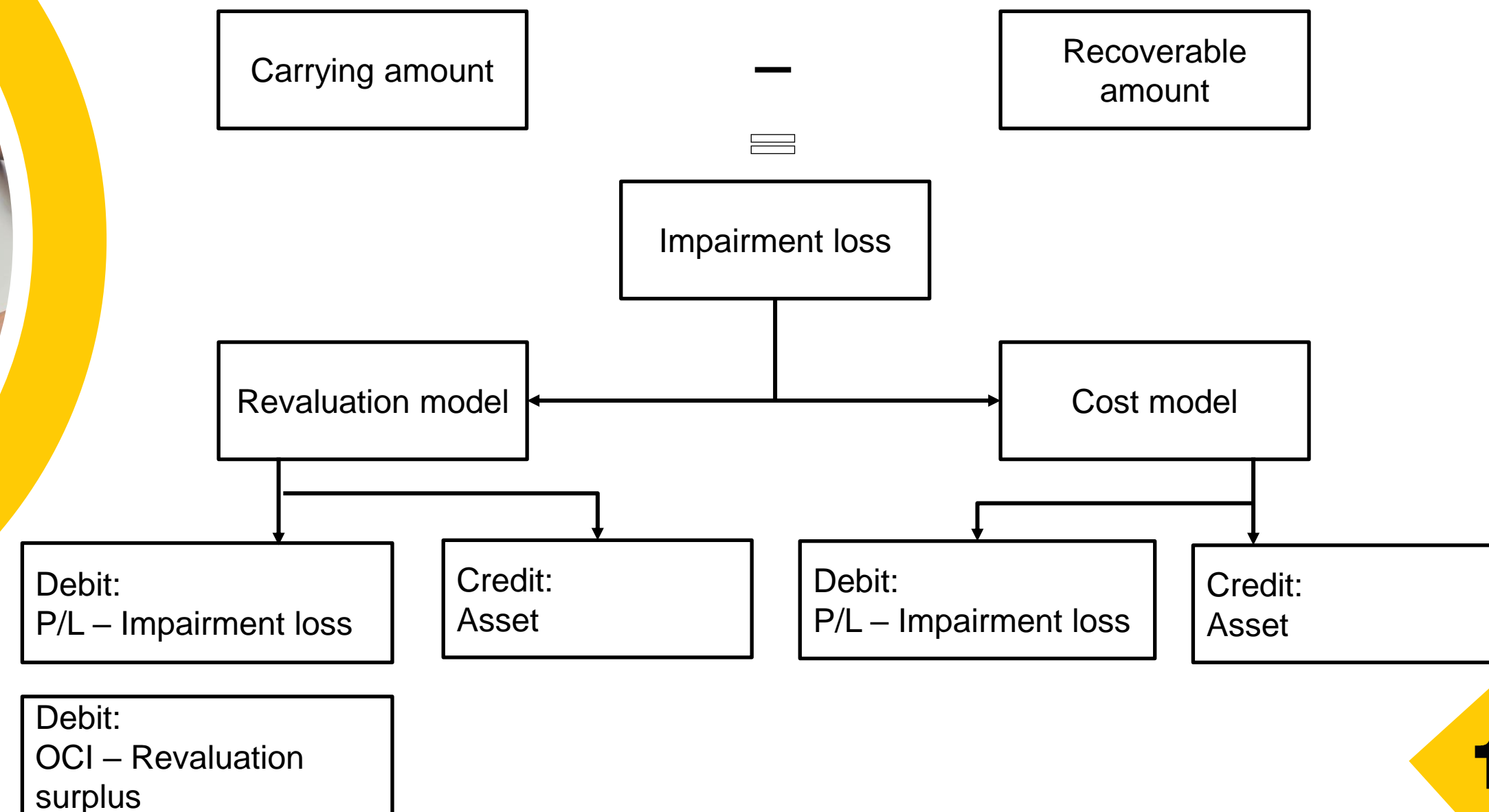
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## RECOGNISING AND MEASURING AN IMPAIRMENT LOSS (cont.)

- ❑ 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 (for example, in accordance with the revaluation model in IAS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.

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## RECOGNISING AND MEASURING AN IMPAIRMENT LOSS (cont.)



❑ **Note:** Adjust depreciation for future periods to new carrying amount



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## RECOGNISING AND MEASURING AN IMPAIRMENT LOSS (cont.)

- ❑ **Cash Generating Unit (CGU)** is the smallest identifiable group of assets that generates cash inflows largely independent from other.
- ❑ 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).
- ❑ Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.



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## RECOGNISING AND MEASURING AN IMPAIRMENT LOSS (cont.)

- ❑ 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.
- ❑ A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually.
  - Carrying amount of cash-generating units (CGU) include goodwill;
  - Recoverable amount of cash-generating units (CGU).

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## RECOGNISING AND MEASURING AN IMPAIRMENT LOSS (cont.)

- ❑ If the carrying amount is higher than the recoverable value of the CGU, the entity should record an impairment loss.
- ❑ The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:
  - first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and
  - 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). These reductions in carrying amounts shall be treated as impairment losses on individual assets.





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## REVERSING AN IMPAIRMENT LOSS



### External sources

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

### Internal sources

- Significant changes (restructuring, enhancement)
- Internal reporting evidence

## 7 REVERSING AN IMPAIRMENT LOSS (cont.)



- ❑ For individual assets, an impairment loss may be recorded when there is a change in the estimates used to determine the asset's recoverable amount. That means the impairment loss cannot be written back over time or due to the cessation of discounting.
- ❑ Rewriting an impairment loss is recognized in the income statement if it does not relate to a revalued asset. The increase in book value due to the write-down is not greater than the remaining value after depreciation provided that no loss has ever arisen before.
- ❑ Note that the depreciation expense is adjusted according to the redetermined carrying amount.

## 7 REVERSING AN IMPAIRMENT LOSS (cont.)



- ❑ 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.. The carrying amount of an asset shall not be increased above the lower of:
  - its recoverable amount (if determinable); and
  - the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.
  
- ❑ An impairment loss should **NOT** be recorded against goodwill.




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 [reanda-icla.com](http://reanda-icla.com)

 028 224 587 87

 [info@reanda-icla.com](mailto:info@reanda-icla.com)

 No. 06 - 07 Phan Ton street, Da Kao Ward, District 1, HCM City