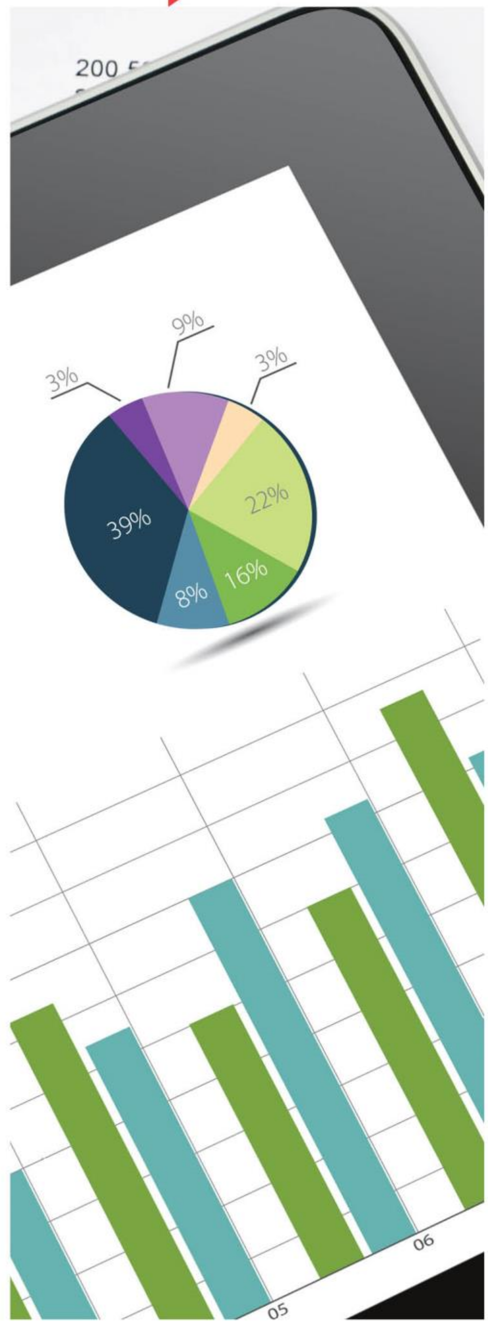
ASSURANCE AND ACCOUNTING

ASPE - IFRS: A Comparison

Impairment of Non-Financial Assets



In this publication we will examine the key differences between Accounting Standards for Private Enterprises (ASPE) and International Financial Reporting Standards (IFRS) in regards to asset impairment. The scope of the impairment standards are broad, but primarily relate to the following assets:

- Property, plant and equipment;
- Intangible assets; and
- Goodwill

Impairment of financial assets (e.g. loans, investments, etc.) is addressed in our ASPE-IFRS: A Comparison publication on financial instruments.

References

ASPE	IFRS
• Section 3063 – *Impairment of Long-lived Assets* • Section 3064 – *Goodwill and Intangible Assets*	• IAS 36 – *Impairment of Assets* • IAS 38 – *Intangible Assets* • IFRS 8 – *Operating Segments*

Overview of Major Differences

ASPE and IFRS have several significant differences in their treatment of asset impairment. A number of the differences relate to the timing of when an impairment test must be performed. Significant differences include:

- Except in relation to indefinite life intangible assets, ASPE uses a two-step impairment testing approach. IAS 36 uses a one-step approach for impairment testing.

- ASPE requires goodwill to be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit. IFRS requires an impairment test for goodwill on an annual basis.

- ASPE requires an intangible asset with an indefinite life to be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may exceed its fair value. IFRS requires an impairment test for an intangible asset with an indefinite life on an annual basis.

- ASPE determines an impairment loss as the excess of the carrying amount above fair value. IAS 36 determines an impairment loss as the excess of the carrying amount above the recoverable amount (the higher of fair value less costs to sell and value in use).

- When testing an asset for impairment, ASPE requires the asset to be grouped with other assets and liabilities to form an “asset group” based on the lowest level for which identifiable net cash flows are independent of other cash flows. IFRS requires grouping by “cash generating unit” (“CGU”). A CGU is the smallest identifiable group of assets generating cash inflows that are largely independent of the cash inflows from other assets or groups of assets. As a result of looking only at cash inflows (and not net cash flows as under ASPE), the grouping of assets for impairment testing may be significantly different under IFRS than under ASPE.

- ASPE prohibits any reversals of impairment losses. Except in relation to goodwill, IAS 36 requires a reversal of an impairment loss where there has been a change in the estimates used to determine the recoverable amount.

Intangible Assets not subject to Amortization

Intangible assets not subject to amortization (i.e. intangible assets with indefinite lives and intangibles with definite lives not yet available for use) are subject to differing impairment requirements both in the timing of the test and the amount the carrying value is compared to when determining impairment.

ASPE	IFRS
Indefinite life intangible assets	
An intangible asset with an indefinite life is required to be tested for impairment whenever events or changes in circumstances indicate that its carrying amount may exceed its fair value.	IAS 36 requires annual testing for impairment. However, the standard provides some relief from this requirement. Where an entity meets specific criteria, the entity may use an asset’s most recent (preceding period’s) detailed calculation of its recoverable amount in the impairment test. Broadly the criteria are: • Since the asset’s most recent recoverable amount calculation, there has been no significant change in the assets and liabilities of the CGU that the intangible asset belongs to; • The most recently calculated recoverable amount substantially exceeded the asset’s carrying amount; and • After assessing events and circumstances since the most recent recoverable amount calculation, there is only a remote chance that the recoverable amount calculation would be less than the asset’s carrying amount.
Testing for impairment of indefinite life intangible assets is a one step process - compare the carrying value with the fair value amount of the asset. If the carrying value exceeds the fair value, an impairment loss is recorded for the excess amount.	IAS 36 uses a one-step impairment test - compare the recoverable amount of the asset with the carrying amount of the asset. If the carrying value exceeds the recoverable amount, then write-down the carrying value to the recoverable amount.

Definite life intangible assets not available for use	
Section 3063 requires an impairment assessment for a definite life intangible asset not available for use to be made whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.	IAS 36 requires annual testing for impairment of a definite life intangible asset not available for use.
Testing for impairment is a two-step process: • Compare the carrying value of the asset group to the expected undiscounted cash flows. • If the carrying value is less than the undiscounted cash flows, then compare the carrying value to the fair value and record an impairment loss if the carrying amount is greater than the fair value. If fair value is determined using a cash flow model, then fair value would generally be the discounted cash flows.	IAS 36 uses a one-step impairment test - compare the recoverable amount of the asset with the carrying amount of the asset. If the carrying value exceeds the recoverable amount, then write-down the carrying value to the recoverable amount.

Long Lived Assets

Significant differences exist in determining impairment losses for long-lived assets (e.g. property, plant and equipment, intangible assets with definite lives, etc.). The primary differences relate to ASPE having a two-step approach to impairment testing while IFRS has a one-step approach and the level at which impairment testing is performed.

ASPE	IFRS
A long-lived asset should be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Examples of indicators of impairment are set out in paragraph 10 of Section 3063.	An entity is required to assess at each reporting date whether there is any indication of impairment. Paragraph 12 of IAS 36 sets out examples of impairment indicators, both external and internal indicators.
For the purpose of recognition and measurement of an impairment loss, ASPE requires a long-lived asset to be grouped with other assets and liabilities to form an asset group. This is the lowest level of assets and liabilities for which net cash flows (cash inflows less related cash outflows) are identifiable and independent. An impairment loss of an asset group is allocated on a pro rata basis excluding goodwill, corporate assets and indefinite life intangible assets. The carrying amounts of the assets should not be reduced below their individual fair values (if known).	The assessment of impairment under IFRS is determined at the individual asset level or, if this cannot be done, allocated to a CGU and tested at the CGU level. A CGU is the smallest identifiable group of assets generating cash inflows that are largely independent of the cash inflows from other assets or groups of assets. As a result of looking only at cash inflows (and not net cash flows), the grouping of assets for impairment testing may be significantly different under IFRS than under ASPE. Any CGU impairment loss is allocated first to reduce goodwill to zero, then pro rata to other assets of the CGU (based on carrying amounts), except that carrying amounts of other assets should not be reduced below the higher of: i) fair value less cost to sell; ii) value in use; and iii) zero.

<table>
<tr>
<td>Under ASPE, testing for impairment is a two-step process:
Compare the carrying value of the asset group to the expected undiscounted cash flows.
If the carrying value is less than the undiscounted cash flows, compare the carrying value to the fair value and record an impairment loss if the carrying amount is greater than the fair value.</td>
<td>IFRS uses a one-step impairment test - if any indication of impairment exists, then compare the recoverable amount of the asset with the carrying amount of the asset.

If the carrying value exceeds the recoverable amount, then write-down the carrying amount to the recoverable amount.</td>
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Goodwill

Two major differences exist between ASPE and IFRS in determining impairment of goodwill, the timing of the test, and the level at which the test is performed.

<table>
<tr><th>ASPE</th><th>IFRS</th></tr>
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<td>ASPE requires goodwill to be tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the reporting unit to which the goodwill is assigned may exceed the fair value of the reporting unit.</td>
<td>IAS 36 requires annual testing for impairment of goodwill and also whenever events or changes in circumstances indicate that the CGU may be impaired.

IAS 36 permits a CGU, to which goodwill has been allocated, to use the CGU’s most recent (preceding period’s) detailed calculation of its recoverable amount in the impairment test.

Broadly the criteria are:
Since the most recent recoverable amount calculation, there is no significant change in the assets and liabilities of the CGU;
The most recently calculated recoverable amount substantially exceeded the CGU’s carrying amount; and
After assessing events and circumstances since the most recent recoverable amount calculation, there is only a remote chance that the recoverable amount calculation would be less than the unit’s carrying amount.</td>
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<td>Goodwill is tested for impairment at a reporting unit level. This is at an operating segment or one level below (component). A component of an operating segment is a reporting unit when the component constitutes a business for which discrete financial information is available and regularly reviewed by management.

For purposes of the impairment test, acquired assets and assumed liabilities are assigned to a reporting unit, as of the date of acquisition, when:
The asset is employed in, or the liability relates to, the operations of the reporting unit; and
The asset or liability is considered in determining the fair value of the reporting unit.</td>
<td>All assets, including goodwill, are allocated to a CGU.

Goodwill may be allocated to groups of CGU’s that together are no larger than a segment, based on the entity’s primary or secondary reporting format determined in accordance with IFRS 8 – Operating Segments. This CGU grouping level will commonly be less aggregated than a reporting unit.</td>
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Goodwill is assigned to one or more reporting units using a similar methodology to what is used in allocating goodwill in a business combination.	
When the carrying amount of a reporting unit, including goodwill, exceeds its fair value, a goodwill impairment loss must be recognized in an amount equal to the excess. The impairment loss recognized cannot be greater than the carrying amount of the goodwill. When goodwill and another asset (or asset group) of a reporting unit are tested for impairment at the same time, the other asset (or asset group) is tested for impairment before goodwill.	The entity shall estimate the recoverable amount of the CGU that the goodwill has been allocated to and compare this with the carrying amount of that CGU. If the carrying value of the CGU exceeds the recoverable amount of the CGU then the entity must recognize an impairment loss. Any CGU impairment loss is allocated first to reduce goodwill to zero, then pro rata to other assets of the CGU (based on carrying amounts), except that the carrying amounts of other assets should not be reduced below the higher of: i) fair value less cost to sell; ii) value in use; and iii) zero.

Measuring an Impairment Loss

The basis for recognizing an impairment loss are slightly different under ASPE and IFRS. ASPE compares the carry value with fair value for an asset group or reporting unit. IFRS compares the carrying amount with the recoverable amount. The recoverable amount is defined as the higher of the fair value less cost to sell or the value in use.

ASPE	IFRS
In relation to long-lived assets (other than goodwill and intangibles with indefinite lives), ASPE uses undiscounted cash flows as a first step in the impairment process to determine the recoverable amount of a group of assets. The fair value used in the calculation of impairment losses is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties under no compulsion to act (i.e. market driven valuation).	The fair value less cost to sell is used in the calculation of the recoverable amount and is the amount obtainable from the sale of an asset or a CGU in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. Value in use is used in the calculation of the recoverable amount and is the present value of the future cash flows expected from the asset or CGU (i.e. entity specific valuation). IAS 36 sets out the methodology for calculating value in use, including: • Future cash flows are estimated for the asset or CGU in its current condition; • Use of pre-tax cash flows and discount rates; and • The discount rate to be applied should be the markets assessment of time value of money and the asset or CGU specific risks.

Impairment Indicators

In both ASPE and IFRS, similar suggested indicators of impairment are included. These indicators are both external, the environment that the entity operates in, or internal, the entity's own operating environment. Under both ASPE and IFRS these are suggested indicators only, therefore an entity may look at other indications to assess if the carrying amount of an asset is recoverable or not. The suggested impairment indicators are as follows (note that this listing of indicators is not exhaustive):

ASPE	IFRS
Examples of events or changes in circumstances related to a long-lived asset include, but are not restricted to: (a) A significant decrease in its market price; (b) A significant adverse change in the extent or manner in which it is being used or in its physical condition; (c) A significant adverse change in legal factors or in the business climate that could affect its value, including an adverse action or assessment by a regulator; (d) An accumulation of costs significantly in excess of the amount originally expected for its acquisition or construction; (e) A current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with its use; or (f) A current expectation that, more likely than not, it will be sold or otherwise disposed of significantly before the end of its previously estimated useful life ("more likely than not" means a level of likelihood that is more than 50 percent).	External sources of information include: (a) There are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use; (b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated; (c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially; or (d) The carrying amount of the net assets of the entity is more than its market capitalization. Internal sources of information include: (e) Evidence is available of obsolescence or physical damage of an asset; (f) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite; or (g) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Reversal of Impairment

The requirements under ASPE and IFRS are very different. Other than assets held for sale, ASPE prohibits any reversals of impairment losses. Except in relation to goodwill, IAS 36 requires a reversal of an impairment loss where there has been a change in estimates used to determine the recoverable amount. Further to this, under IAS 36 the carrying amount after any impairment loss reversal is restricted to the assets carrying amount that would have been determined if no impairment loss had been recognized in prior years (i.e. net of amortization or depreciation).

Under both ASPE and IFRS, an entity is prohibited from reversing any goodwill impairment losses. As a result of this prohibition, a reversal of an impairment loss for a cash-generating unit is allocated differently than the allocation of an impairment loss. The reversal of an impairment loss is allocated pro rata to the assets of the unit, excluding goodwill using the assets carrying amounts.

Conclusion

In general, there are significant differences in determining impairment losses for assets under ASPE and IFRS, including the timing of when impairment tests must be performed and the requirements of the calculation of impairment losses. If you require further guidance on accounting for asset impairments under ASPE or IFRS please contact your local BDO Canada LLP office. If you are considering the adoption of a new standard, learn how our BDO Accounting Advisory Services Team can help you with the transition.

To learn more about the differences between standards, view our ASPE-IFRS: A Comparison Series.

The information in this publication is current as July 31, 2020.