IAS 36 Impairment of Assets

**Effective Date**
Periods beginning on or after 31 March 2004

**ASSETS TO BE REVIEWED**

- **INDIVIDUAL ASSETS**
  - The smallest identifiable group of assets that generates cash flows that are independent of the cash inflows from other assets or group of assets.

- **CASH-GENERATING UNITS (CGUs)**

**IMPAIRMENT = Carrying Amount > Recoverable Amount**

**RECOVERABLE AMOUNT = Higher of fair value less costs to sell and value in use**

- **Fair value less cost to sell**
  - Amount obtainable in an arm’s length transaction less costs of disposal.

- **Value-in-use**
  - Represents the discounted future net pre-tax cash flows from the continuing use and ultimate disposal of the asset.

- **Costs of disposal**
  - Incremental costs attributable to the disposal of an asset.

- **Cash flows**
  - From continuing use and disposal
  - Based on asset in its current form
  - Exclude financing activities
  - Pre-tax.

- **Discount rate**
  - Pre-tax
  - Risks relating to value in use are reflected either in future cash flows or in the discount rate. The assumptions are otherwise double-counted.

**WHEN TO TEST FOR IMPAIRMENT?**

- When there is an indicator of impairment. Indicators are assessed at each reporting date.

**WHEN TO REVERSE IMPAIRMENT?**

- Individual asset - recognise in profit and loss unless asset carried at revalued amount.
  - CGUs - allocated to assets of CGUs on a pro-rata basis.
  - Goodwill - Impairment of goodwill is never reversed.

**SCOPE**

- All assets, except: inventories, construction contracts, deferred tax assets, employee benefits, financial assets, investment property, biological assets, insurance contract assets, and assets held for sale.

**INTERNAL INDICATORS**

- Evidence of obsolescence or physical damage
- Discontinuance, disposal or restructuring plans
- Declining asset performance.

**EXTERNAL INDICATORS**

- Significant decline in market value
- Changes in technological, market, economic or legal environment
- Changes in interest rates
- Low market capitalisation.

**INDIVIDUAL ASSETS**

- Compulsory for:
  - Intangible assets with an indefinite useful life
  - Intangible assets not yet available for use
  - CGUs to which goodwill has been allocated.

**INTERNAL INDICATORS**

- Changes in way asset is used or expected to be used
- Evidence from internal reporting indicates that economic performance of the asset will be better than expected.

**EXTERNAL INDICATORS**

- Significant increase in market value
- Changes in technological, market, economic or legal environment
- Changes in interest rates
- Market interest rates have decreased.
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