



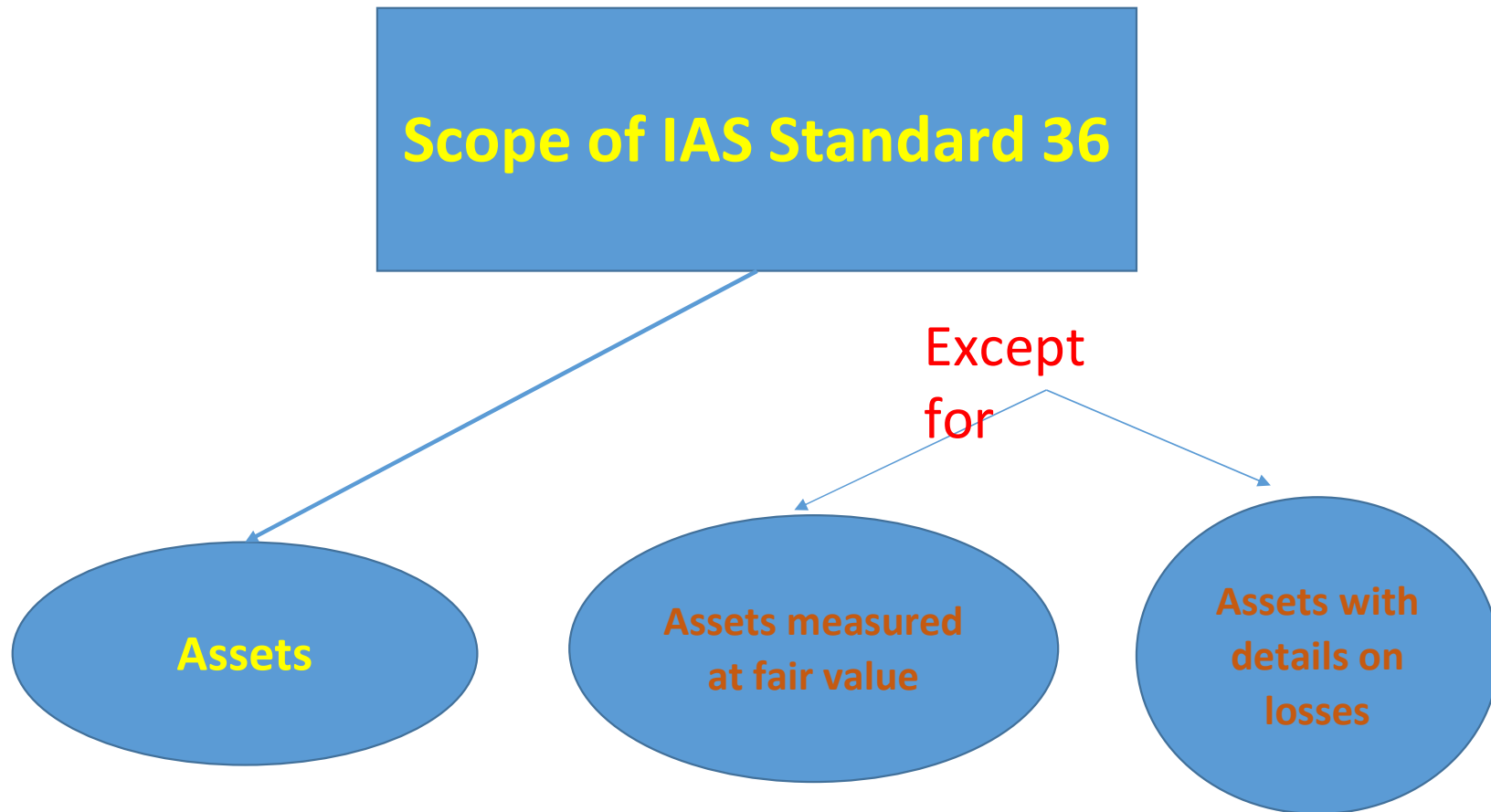
# PASSFR.EU

A Digital Learning Platform for Generation Z:  
Passport to IFRS®

## IAS® Standard 36 Impairment of Assets



# SCOPE



# PRINCIPLE AND KEY DEFINITIONS

An asset is impaired when

Carrying amount

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Recoverable amount

the highest  
between

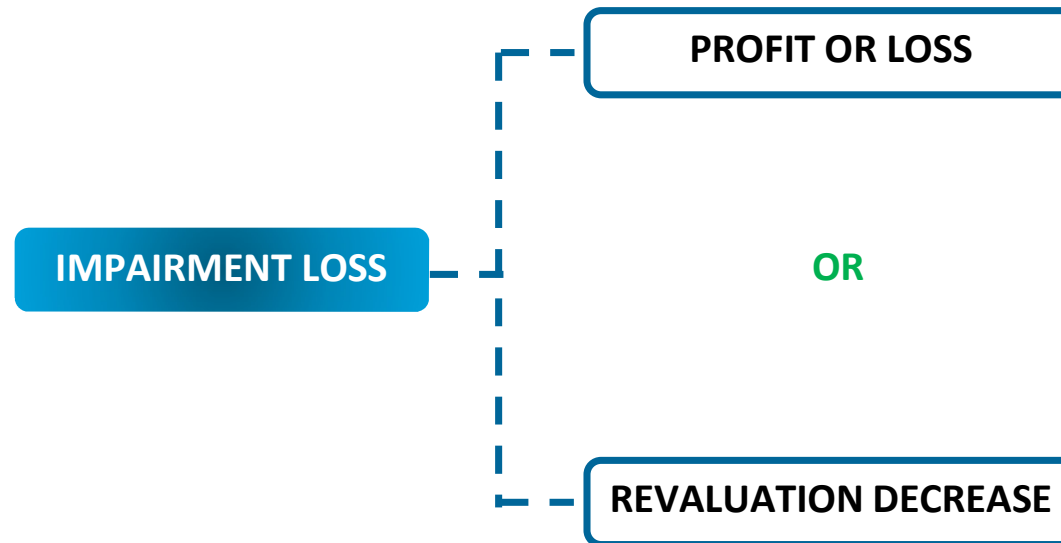
Fair value – costs of disposal

Value in use

# RECOGNITION AND MEASUREMENT



# RECOGNITION AND MEASUREMENT



# PROCEDURES

**Step 1: Should an impairment test be conducted?**

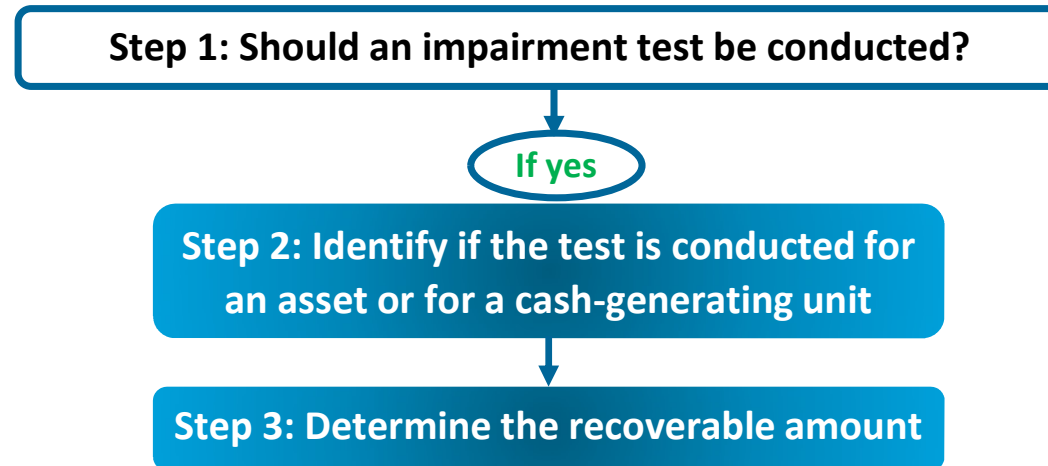
# PROCEDURES

**Step 1: Should an impairment test be conducted?**

**If yes**

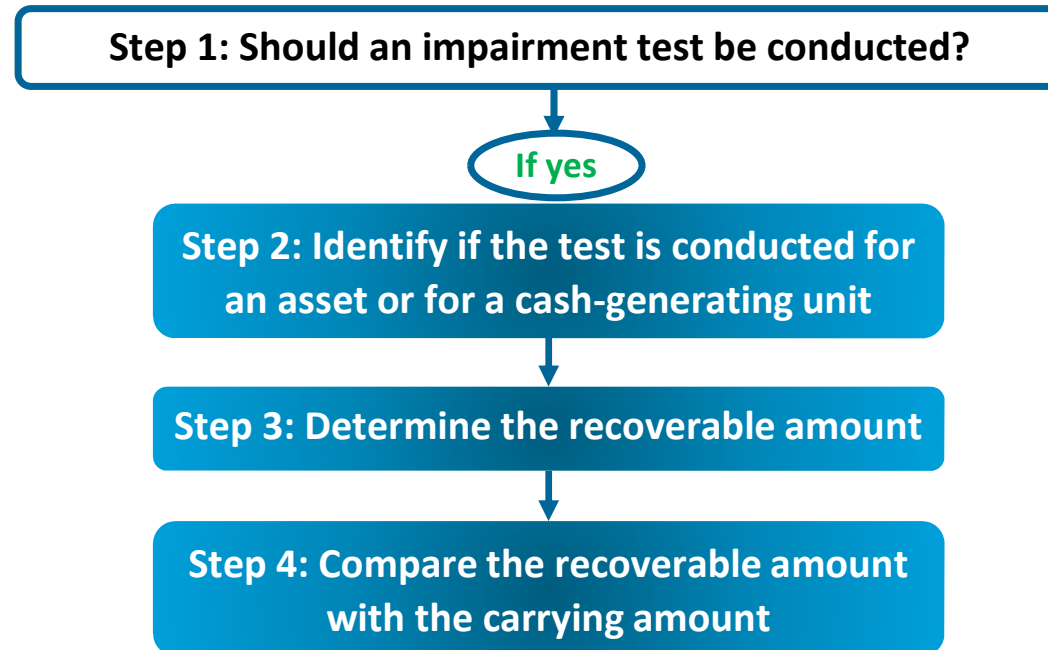
**Step 2: Identify if the test is conducted for an asset or for a cash-generating unit**

# PROCEDURES

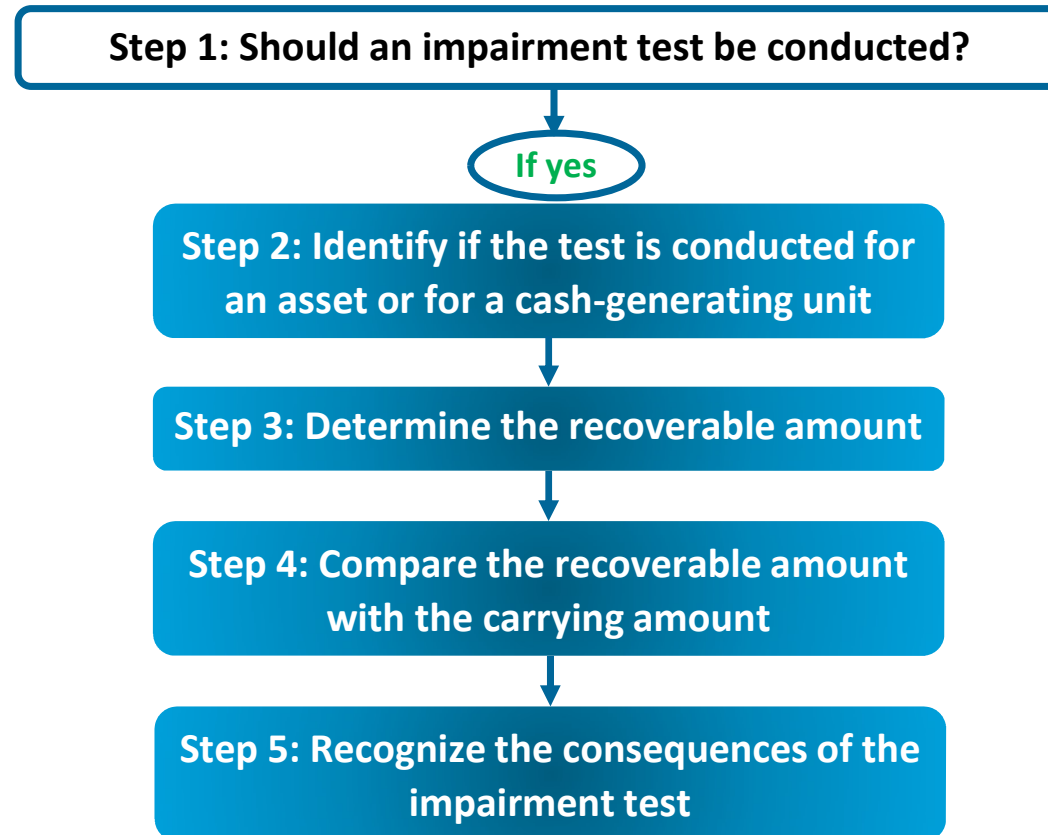




# PROCEDURES



# PROCEDURES



# PROCEDURES

## Step 5: Recognize the consequences of the impairment test

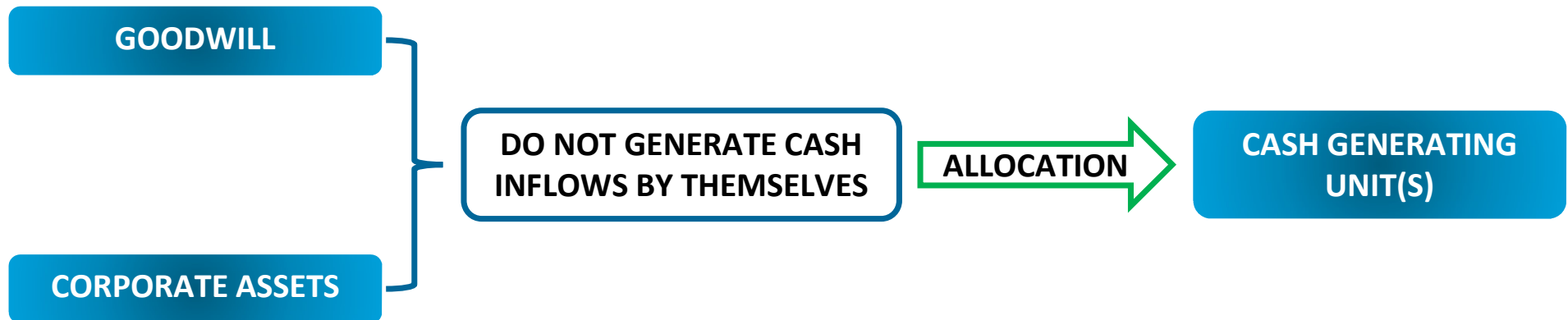
Continuing our previous example, the loss is recognized as follows, if the asset is not revalued:

Dr. Impairment expense	150,000	
Cr. Impairment of assets		150,000

If the asset had been previously revalued, and the revaluation surplus is higher than the impairment loss, the loss will decrease the revaluation surplus (if lower, the difference will be recognized as an expense).

Dr. Revaluation surplus	150,000	
Cr. Impairment of assets		150,000

# GOODWILL AND CORPORATE ASSETS

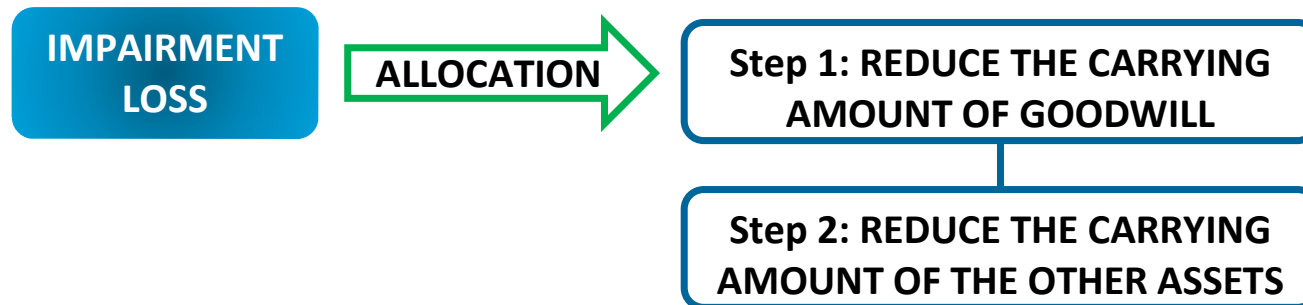


# EXAMPLE ALLOCATION OF CORPORATE ASSETS

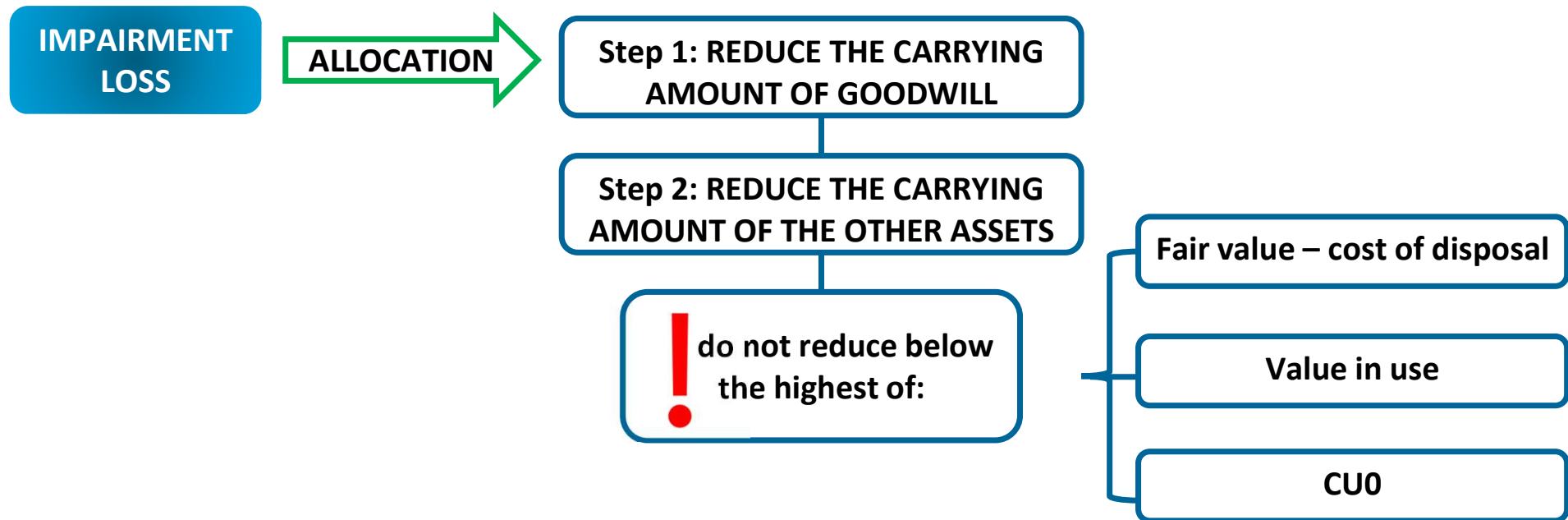
An entity has 2 cash generating units – CGU1 and CGU2. The carrying amount of the assets in CGU1 is CU10,000 and CU20,000 in CGU2. The carrying amount of the building hosting the entity's headquarters is CU6,000. The value of the building will be allocated to CGUs pro rata on the basis of their carrying amount.

	CGU1 (in CU)	CGU2 (in CU)	Total (in CU)
<b>Carrying amount</b>	10,000	20,000	30,000
<b>Allocation</b>	$6,000/30,000 * 10,000 = 2,000$	$6,000/30,000 * 20,000 = 4,000$	6,000
<b>Carrying amount including corporate assets</b>	12,000	24,000	36,000

# IMPAIRMENT LOSS ALLOCATION



# IMPAIRMENT LOSS ALLOCATION



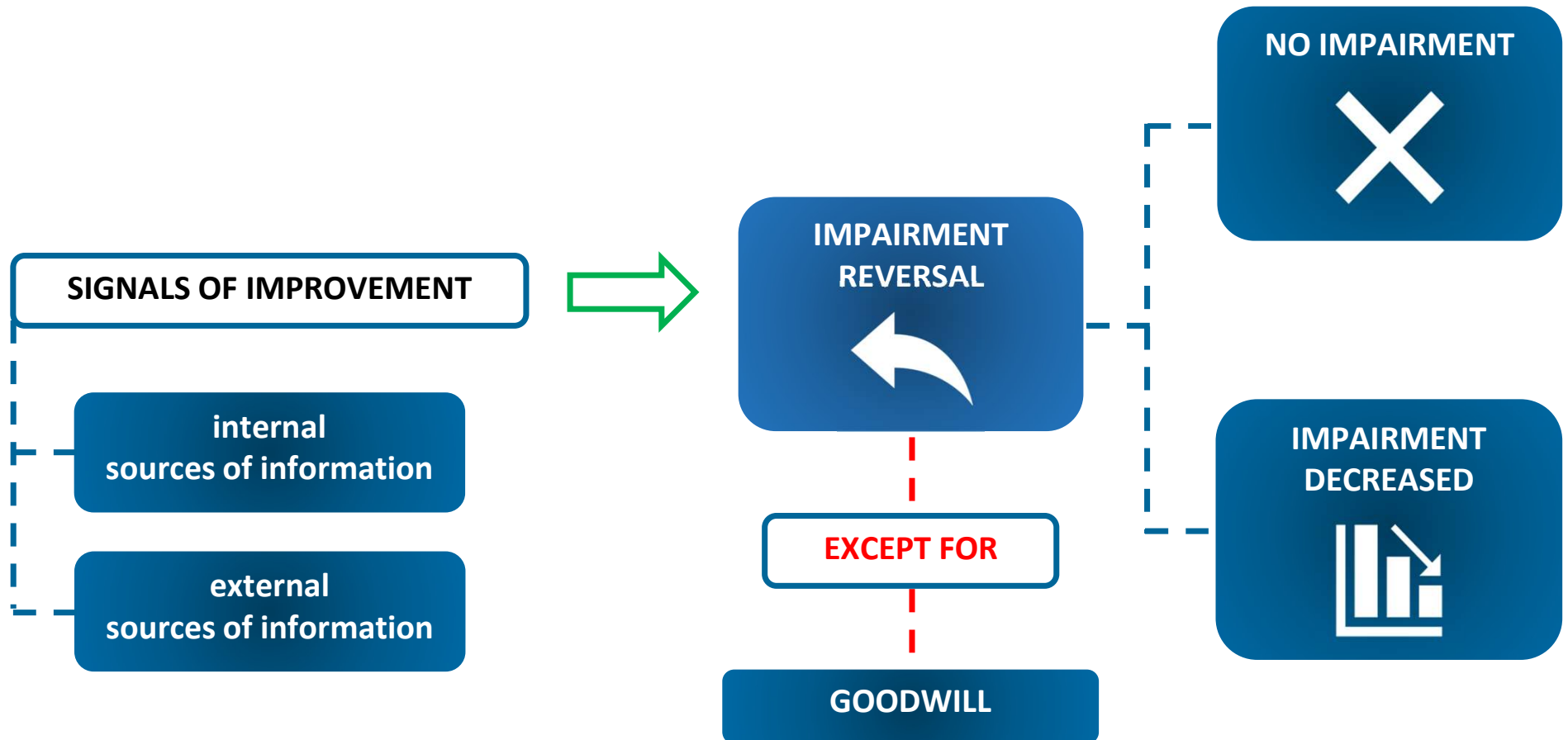
# EXAMPLE IMPAIRMENT LOSS ALLOCATION

The following assets are part of a CGU: equipment 1, with a carrying amount of CU5,000, equipment 2, with a carrying amount of CU14,500, and goodwill, for CU500. The carrying amount of the CGU is thus CU20,000, and its recoverable amount is CU19,000.

	Equipment 1 (in CU)	Equipment 2 (in CU)	Goodwill (in CU)	Total (in CU)
<b>Carrying amount</b>	5,000	14,500	500	20,000
<b>Impairment loss</b>	$500 * 5,000 / 19,500 = 128.2$	$500 * 14,500 / 19,500 = 371.8$	500	1,000
<b>Carrying amount after the impairment test</b>	4,871.8	14,128.2	0	19,000



# IMPAIRMENT REVERSAL



# EXAMPLE IMPAIRMENT REVERSAL

An equipment acquired at the beginning of year 20X1 for CU10,000 was to be used for 5 years. The straight-line method of depreciation is used, and there is no expected residual value.

At the end of year 20X2 there is a significant decrease in the market of the product manufactured with the equipment, given an economic crisis. This is an indication for impairment, and an impairment test is conducted. The recoverable amount of the equipment is estimated at CU5,100.

At the end of 20X3, the economic situation improves considerably, and the recoverable amount is estimated at CU4,200.

Assess the existence of impairment indications at the end of 20X2 and 20X3, and the outcome of this assessment.

# SOLUTION

Year	Depreciable amount	Depreciation expense	Carrying amount	Recoverable amount	Impairment	Carrying amount after impairment
20X1	10,000	$10,000/5 = 2,000$	8,000			
20X2	8,000	$8,000/4 = 2,000$	6,000	5,100	Loss of 900	5,100
20X3	5,100	$5,100/3 = 1,700$	3,400	4,200	Reversal of 600	4,000

**Impairment loss** recognition:

Dr.	Impairment loss (expense)	900
Cr.	Impairment of assets	900

**Impairment reversal** recognition:

Dr.	Impairment of assets	600
Cr.	Impairment loss	600

Decreased impairment by

$$800 = 4,200 - 3,400$$

however

The maximum value of the asset

$$6,000 - 2,000 = 4,000$$

$$4,000 - 3,400 = 600$$

Impairment reversal

# DISCLOSURE

- the amount of impairment losses recognized during the period
- the amount of reversals
- the events and the circumstances leading to the recognition of a loss or of a reversal
- description of the assets or cash generating units
- the estimates used to measure the recoverable amount
- explanations on how goodwill has been allocated
- the key assumptions used, including growth rates, discounted rates, and the periods over which cash flows are forecast.

# EXAMPLE

IMP manufactures a product in two sections – A and B. A semi-finished product is obtained in section A, which is further manufactured in section B. A unit of the finished product may be sold at CU5, and its production cost (before depreciation) is CU3. Sales forecasts are made for 4 years at the end of 20X1, given that the market is highly unpredictable beyond this date. Sales volume is estimated as follows: 7,000 units in 20X2; 5,000 units in 20X3; 4,000 units in 20X4; and 4,000 units with a probability of 50% and 2,000 units with a probability of 50% for 20X5.

IMP has the following assets (carrying amounts):

	<b>Section A</b>	<b>Section B</b>	<b>Corporate assets</b>
<b>Assets</b>	Equipment: CU15,000 Machines: CU5,000	Equipment: CU7,000 Intangibles: CU3,000	Building: CU5,000 IT infrastructure: CU1,000

## EXAMPLE (CONT.)

The discount rate is 10%. The fair value less costs of disposal is estimated at CU21,000 for Section A and CU12,000 for Section B.

The market for the product is undergoing major changes, and forecasted sales are below the ones estimated when the assets were purchased. Therefore, an impairment test is conducted.

Discuss how the impairment test is conducted in the following scenarios:

- Scenario 1: The semi-finished product cannot be sold on the market
- Scenario 2: The semi-finished product may be sold on the market; its cost is of CU1 per unit, and the market price is CU2 per unit.

# SOLUTION

Scenario 1: The semi-finished product cannot be sold on the market

Carrying amount = CU20,000 (section A) + CU10,000 (section B) + CU6,000 (corporate assets) = CU36,000

Fair value less costs of disposal = CU21,000 (section A) + CU12,000 (section B) = CU33,000

# SOLUTION

Scenario 1: The semi-finished product cannot be sold on the market

Fair value less costs of disposal = **CU33,000**

← Recoverable amount

Determination of the value in use (all amounts are in CU):

Year	Net cash flow per unit of product	Sales (units)	Cash flow	Discount factor	Discounted cash flow
20X1	5-3 = 2	7,000	14,000	$(1+10\%)^{-1}=0.9091$	12,727.4
20X2	2	5,000	10,000	$(1+10\%)^{-2}=0.8264$	8,264
20X3	2	4,000	8,000	$(1+10\%)^{-3}=0.7513$	6,010.4
20X4	2	4,000*50% + 2,000*50% = 3,000	6,000	$(1+10\%)^{-4}=0.6830$	4,098
<b>Total</b>					<b>31,099.8</b>

higher of

Carrying amount

36,000

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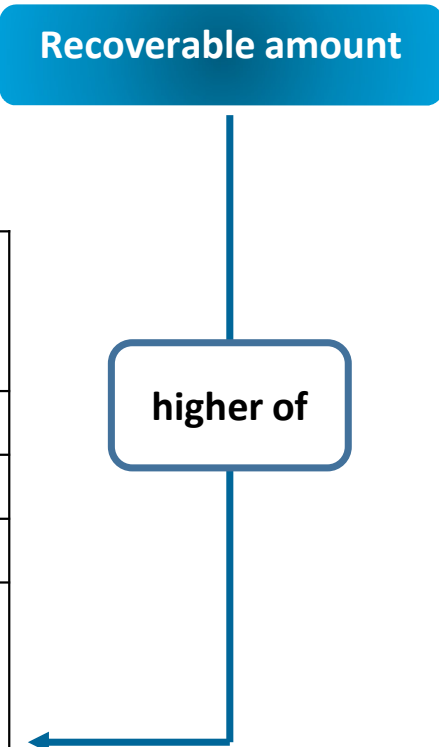
Recoverable amount

33,000

→

Impairment loss

3,000





# SOLUTION

Scenario 1: The semi-finished product cannot be sold on the market

The impairment is thereafter allocated to assets (all amounts are in CU):

Assets	Carrying amount before the impairment	Impairment loss	Carrying amount after the impairment
Section A: Equipment	15,000	$3,000 * 15,000 / 36,000 = 1,250$	13,750
Section A: Machines	5,000	$3,000 * 5,000 / 36,000 = 416.7$	4,583.3
Section B: Equipment	7,000	$3,000 * 7,000 / 36,000 = 583.3$	6,416.7
Section B: Intangibles	3,000	$3,000 * 3,000 / 36,000 = 250$	2,750
Building	5,000	$3,000 * 5,000 / 36,000 = 416.7$	4,583.3
IT infrastructure	1,000	$3,000 * 1,000 / 36,000 = 83.3$	916.7
<b>Total</b>	<b>36,000</b>	<b>3,000</b>	<b>33,000</b>

# SOLUTION

Scenario 2: The semi-finished product may be sold on the market; its cost is CU1 per unit, and the market price is CU2 per unit.

	Section A	Section B	Total
Carrying amount	20,000	10,000	30,000
Allocate the value of the building	$5,000 * 20,000 / 30,000 = 3,333.3$	$5,000 * 10,000 / 30,000 = 1,666.7$	5,000
Allocate the value of the IT infrastructure	$1,000 * 20,000 / 30,000 = 666.7$	$1,000 * 10,000 / 30,000 = 333.3$	1,000
Carrying amount including corporate assets	24,000	12,000	36,000

Fair value less costs of disposal: CU21,000 (section A) and CU12,000 (section B)

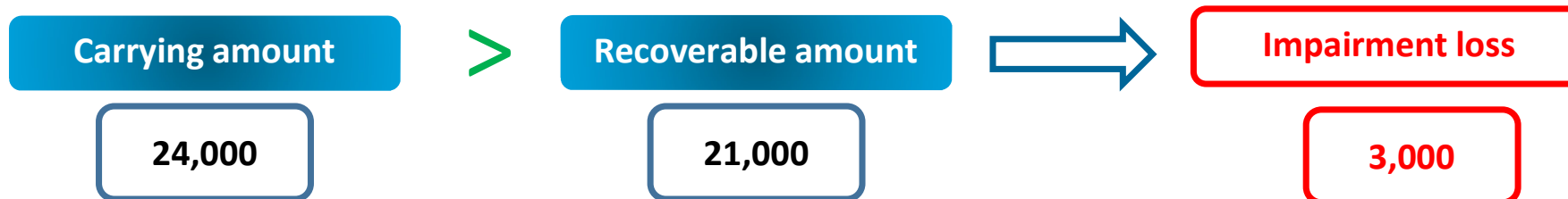
# SOLUTION

Scenario 2: The semi-finished product may be sold on the market; its cost is CU1 per unit, and the market price is CU2 per unit.

Determination of the value in use for section A only:

Year	Net cash flow per unit of product	Sales (units)	Cash flow	Discount factor	Discounted cash flow
20X1	2-1 = 1	7,000	7,000	$(1+10\%)^{-1}=0.9091$	6,363.7
20X2	1	5,000	5,000	$(1+10\%)^{-2}=0.8264$	4,132
20X3	1	4,000	4,000	$(1+10\%)^{-3}=0.7513$	3,005.2
20X4	1	4,000*50% + 2,000*50%=3,000	3,000	$(1+10\%)^{-4}=0.6830$	2,049
<b>Total</b>					<b>15,549.9</b>

Fair value less costs of disposal: CU21,000



## SOLUTION

Scenario 2: The semi-finished product may be sold on the market; its cost is CU1 per unit, and the market price is CU2 per unit.

The impairment is allocated to assets.

<b>Assets</b>	<b>Carrying amount before the impairment</b>	<b>Impairment loss</b>
<b>Section A: Equipment</b>	15,000	$3,000 * 15,000 / 24,000 = 1,875$
<b>Section A: Machines</b>	5,000	$3,000 * 5,000 / 24,000 = 625$
<b>Building</b>	3,333.3	$3,000 * 3,333.3 / 24,000 = 416.7$
<b>IT infrastructure</b>	666.7	$3,000 * 666.7 / 24,000 = 83.3$
<b>Total</b>	<b>24,000</b>	<b>3,000</b>



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