Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M186
Topic:	**Supporting document: Detailed requirement of impairment in Australian Accounting Standards**	**Agenda Item:**	4.2.1
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		Decision-Making:	N/A
		Project Status:	Initial deliberations

The objective of this paper

A1 The objective of this staff paper is to provide a more detailed summary of the requirements of AASB 136 *Impairment of Assets*.

Current requirements under Australian Accounting Standards

AASB 136 *Impairment of Assets*

A2 AASB 136 sets out the impairment requirements for non-financial assets, with some exceptions.[1] AASB 136 applies to assets carried at cost and assets carried at revalued amounts.

A3 AASB 136 acknowledges that many not-for-profit (NFP) entity assets are not primarily held for their ability to generate net cash inflows as some assets are specialised and held for continuing use or their service capacity. As these assets are rarely sold, their cost is expected to be materially the same as their fair value[2] so, if an asset is regularly revalued to fair value under either AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*, AASB 136 does not apply to the asset. However, if an asset is accounted for at cost under either AASB 116 or AASB 138, AASB 136 applies.[3]

A4 The objective of AASB 136 is to ensure that an entity's assets are carried at no more than their recoverable amounts. An asset would be carried at more than its recoverable amount if its carrying

1 Exceptions include inventories (addressed in AASB 102 *Inventories*), contract assets and assets arising from costs to obtain or fulfil a contract that are recognised in accordance with AASB 15 *Revenue from Contracts with Customers*; deferred tax assets, assets arising from employee benefits, investment properties carried at fair value, biological assets related to agricultural activities within the scope of AASB 141 *Agriculture*; deferred acquisition costs and intangible assets arising from an insurer's contract rights under insurance contracts with the scope of AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*; and non-current assets (or disposal groups) classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. AASB 136 also applies to financial assets classified as subsidiaries (in accordance with AASB 10 *Consolidated Financial Statements*), associates (in accordance with AASB 128 *Investments in Associates and Joint Ventures*) and joint ventures (as defined in AASB 11 *Joint Arrangements*).

2 AASB 136 paragraph 13

3 AASB 136 paragraph Aus5.1

amount exceeds the amount to be recovered through use or sale of the asset. Where this occurs, the asset is described as impaired and AASB 136 requires the entity to recognise an impairment loss.

A5 At the end of each reporting period, an entity assesses whether there are any indicators of impairment for any asset in the scope of AASB 136. AASB 136 lists examples of internal and external impairment indicators. Only where an indication of impairment exists is an entity required to determine the asset's recoverable amount.

A6 However, there are some assets that are tested for impairment annually, regardless of whether an indicator exists:

(a) goodwill;

(b) indefinite life intangible assets; and

(c) intangible assets not yet available for use.

Cash-generating unit (CGU)

A7 AASB 136 notes that it may not be possible to assess an individual asset for an indication of impairment because the asset does not generate cash inflows that are largely independent of those from other assets, and the asset's value in use (VIU) cannot be estimated to be close to its fair value less costs of disposal (FVLCD). In such cases, impairment testing is performed at the level of the CGU. CGUs must comprise assets which are to be identified consistently from period to period, unless a change is justified. The carrying amount of a CGU shall be determined on a basis consistent with the way the recoverable amount of the CGU is determined. References to an asset in the remainder of this section include references to CGUs.

A8 An assets recoverable amount is the higher of its FVLCD and VIU.

(a) FVLCD is the amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less the costs of disposal.[4]

(b) VIU is the present value of the future cash flows expected to be derived from an asset or CGU. An asset's value in use reflects:

(i) an estimate of the future cash flows the entity expects to derive from the asset;

(ii) expectations about possible variations in the amount or timing of those future cash flows;

(iii) the time value of money, represented by the current market risk-free rate of interest;

(iv) the price for bearing the uncertainty inherent in the asset; and

(v) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

A9 It is not always necessary to determine both an asset's FVLCD and its VIU. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

A10 Estimating the VIU of an asset involves the following steps:

(a) Estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal. The cash flows are based on budgets and forecasts after excluding any estimated cash inflows and outflows associated with enhancements to the asset's performance, and cash flows from financing activities or income tax receipts or payments. Risk factors are included in either the cash flows or the discount rate, and not in both. Projections should cover a maximum period of five years unless a longer period can be justified.

[4] Under AASB 13 *Fair Value Measurement* there are three levels of FV hierarchy for inputs to measure FV.

(b) Applying the appropriate discount rate to those future cash flows. The discount rate is 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 future cash flow estimates have not been adjusted.

Recognising and measurement of an impairment loss

A11 Where an asset's recoverable amount is less than that asset's carrying amount, the carrying amount must be reduced to the recoverable amount of the asset and the reduction amount (impairment loss) is recognised as an expense. If the asset is carried at a revalued amount, the impairment loss is treated as a revaluation decrease in accordance with the relevant accounting standard.

Allocation of an impairment loss in a CGU

A12 In the case of a CGU, any impairment loss is allocated:

(a) first to reduce the carrying amount of any goodwill allocated to the CGU; and

(b) then to other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

A13 The carrying amounts of individual assets within a CGU must not be reduced below the highest of fair value less costs of disposal (if determinable), value in use (if determinable) or zero. The amount of any impairment loss that would otherwise have been allocated to an individual asset is allocated pro rata to the other assets of the CGU.

Timing of recoverable amount testing

A14 Impairment testing for intangible assets which need to be tested on an annual basis (i.e. goodwill, indefinite life intangibles and intangibles not yet available for use) need not be performed at the end of the reporting period, as long as it is conducted at the same time each year. Different intangible assets may be tested for impairment at different times. However, where such an asset was initially recognised during the current period, that asset shall be tested for impairment before the end of the current annual period.

Reversal of an impairment loss

A15 An entity assesses at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. An impairment loss recognised for goodwill cannot be reversed.

Reversing an impairment loss for an individual asset

A16 Where an indication of impairment reversal exists, the asset's recoverable amount is assessed. If the impairment loss has reversed, the increased carrying amount cannot exceed the carrying amount (net of depreciation or amortisation) that would have been determined had no impairment loss been recognised in prior year.

A17 A reversal of an impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard in which case the reversal is treated as a revaluation increase in accordance with that Standard. After reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A18 As NFP entities are able to revalue assets on a class-by-class basis, rather than asset-by-asset basis, an impairment loss on a revalued asset is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount in the revaluation surplus for the class of asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for the class of asset.

Reversing an impairment loss for a CGU

A19 In reversing an impairment loss for a CGU, the reversal is allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets.

A20 The increases in the carrying amount shall be treated as reversals of impairment losses for individual assets. Therefore, they are recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard in which case the reversal is treated as a revaluation increase in accordance with that Standard.

A21 In allocating the reversal amount, the carrying amount of an asset is not increased above the lower of its recoverable amount and the carrying amount (net of depreciation or amortisation) that would have been determined had no impairment loss been recognised in prior periods.

A22 The amount of any reversal that would otherwise have been allocated to an asset are allocated to the other assets of the CGU pro rata (except for goodwill).