Distinctive Financial Reporting

FAC3702

Study unit 3
Impairment of assets

Overview

- What is impairment?
- When?
- Calculation
- Reversal
- Goodwill
- Tax
- Disclosure

Definition

- Impairment loss arises when:
  - Carrying amount of asset/cash generating unit

    EXCEEDS
  - Recoverable amount
    - Higher of:
      - Asset/cash generating unit's fair value less cost of disposal, or
      - Value in use

Fair value less disposal cost

- Fair value
  - IFRS 13
  - Binding sale agreement
  - Value in active market
  - Best available information
- Cost of disposal
  - Includes
    - Legal costs
    - Costs of removing asset
  - Excludes
    - Amounts recognised as liabilities
    - Termination benefits
    - Reorganisation costs

Value in use

- Cash flows from use disposal
  - Net (Attributed inflow less outflow)
  - Base on:
    - Budgets covering 5 yrs max, extrapolate thereafter
    - Include
      - Day-to-day servicing
      - Overheads directly attributable or reasonably allocated
    - Exclude
      - Future improvements or restructuring not yet committed
      - Financing activities
      - Income Tax
- At appropriate discount rate
  - Pre-tax rate
  - Same rate as cash flows – nominal or real
  - Reflect risks specific to asset for which cash flows were not adjusted

When?

- Assess at end of each reporting period
- Intangible assets
  - Indefinite useful life
  - Not yet available for use
  - Goodwill
- Consider:
  - External sources of information
  - Internal sources of information
  - Evidence from internal reporting

Calculation

1. Calculate asset's carrying amount
   - Cost/revalued amount
   - Less accumulated depreciation/amortisation

2. Calculate asset's recoverable amount
   - Higher of
     - Face value less cost to sell
     - Value in use
   - Apply appropriate discount rate

3. Recognise impairment if (1) > (2)

Accounting for impairment loss

Cost model

Recognise immediately in P/L:

Dr Impairment loss (P/L)

Cr Accumulated impairment loss (SFP)

Use ‘new’ carrying amount for basis of depreciation calculation.

Revaluation model

Treat as reduction of asset’s revaluation surplus. Excess – recognise immediately in P/L

Dr Revaluation Surplus (OCI)

Dr Impairment loss (P/L)

Cr Accumulated impairment loss (SFP)

Use ‘new’ carrying amount for basis of depreciation calculation.

Reversal of impairment loss

- Asset impaired in previous period now worth much more
- CHANGE IN ESTIMATE
  - Calculation of recoverable amount
    - Change in calculation basis – fair value or value in use
    - Estimated timing of cash flows
    - Discount rate
    - Estimate of components of fair value
- Reversal limited to amount impaired in prior periods
  - ‘New’ carrying amount may not exceed ‘original’ carrying amount
  - UNLESS policy to revaluate
    - Excess – revaluation surplus

Accounting for reversal of impairment loss

Cost model

Recognise immediately in P/L:

Dr Accumulated impairment loss (SFP)

Cr Reversal of impairment loss (P/L)

Use 'new' carrying amount for basis of depreciation calculation.

Revaluation model

Recognise in other comprehensive income to extent of asset's previous impairment. Excess – recognise immediately in P/L

Dr Accumulated impairment loss (SFP)

CR Revaluation Surplus (OCI)

Cr Reversal of impairment loss (P/L)

Use 'new' carrying amount for basis of depreciation calculation.

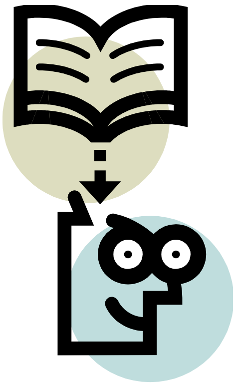
Goodwill

- Represent anticipated future economic benefits from assets
  - Not capable – individually identified or separately recognised
- Acquired in business combination
  - Allocate to each cash-generating unit/group
- Test impairment annually
- Impairment loss iro goodwill may NOT be reversed in subsequent periods

Tax

- Only deduct costs actually incurred in year of assessment
- Impairment ≠ actually incurred
- Temporary difference ⇒ Deferred tax
  - Impairment losses
  - Reversal of impairment losses
  - Depreciation/amortisation
  - Tax allowance

Disclosure – NB!!!!!



STUDY

Page 114 - 117 of Study Guide