Adviser Alert – COVID-19: Interim Financial Reporting and Impairment

April 2020

Overview

The novel coronavirus (COVID-19) pandemic is spreading around the globe rapidly. Entities need to carefully consider the accounting implications of this situation.

Under International Financial Reporting Standard (IFRS) IAS 36, *Impairment of assets*, an entity is required to test its assets such as property, plant and equipment, intangible assets and goodwill for impairment when indicators of impairment are present. In addition a mandatory annual impairment test for goodwill and intangible assets with indefinite useful lives must be performed.

Indicators of impairment may appear as a result of the economic conditions caused by the spread of COVID-19 and an entity may be required to perform an impairment test, and record an impairment loss, during an interim period in 2020.

An entity may recognize an impairment loss in one period but, in a subsequent period, there may be an indication that the impairment loss recognized in the prior period may no longer exist or may have decreased. In such cases, IAS 36 states that an impairment loss recognized in prior periods for an asset *other than goodwill* should be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

The issue

Due to the presence of impairment indicators in the first quarter ended March 31, 2020 (Q1-2020), an entity performs a goodwill impairment test and recognizes a goodwill impairment loss in Q1-2020. In Q4-2020, the entity performs its annual goodwill impairment test and, given that economic conditions have improved since Q1-2020, the impairment test indicates that the impairment loss recognized in Q1-2020 would not have been recognized, or a smaller loss would have been recognized.

In Q4-2020, can the entity reverse part, or all, of the goodwill impairment loss recognized in Q1-2020?

The answer

IAS 34, *Interim financial reporting*, requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. It also states that "the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis." Furthermore, IAS 36 paragraph 124 states that "An impairment loss recognised for goodwill shall not be reversed in a subsequent period."

For these reasons, the entity cannot reverse the goodwill impairment loss recognized in a previous interim period.

It should be noted, however, that impairment losses recognized under IAS 36 for assets other than goodwill could be subsequently reversed.

Resources

This issue is addressed in IFRIC 10, *Interim financial reporting and impairment*.