Alerte de votre conseiller – IFRS

Aperçu d'IAS 36 – Dépréciation d'actifs

Août 2021

Aperçu

L'équipe IFRS de Grant Thornton International a publié trois bulletins *Insights into IAS 36* (en anglais seulement) :

- *Overview of the Standard*;
- *Scope and structure of IAS 36*;
- *If and when to undertake an impairment review*.

La norme IAS 36 *Dépréciation d'actifs* n'est pas une nouvelle norme et, bien que bon nombre de ses exigences ne soient pas inconnues, un test de dépréciation à l'égard d'actifs (qu'il s'agisse d'immobilisations corporelles ou incorporelles) est souvent difficile à appliquer dans la pratique. Cela s'explique par le fait que les directives d'IAS 36 sont détaillées, prescriptives et complexes pour certains aspects.

La série *Insights into IAS 36* a été rédigée pour aider les préparateurs d'états financiers et les personnes responsables de la gouvernance des entités publiantes à comprendre les exigences énoncées dans IAS 36 et pour revoir certains aspects où une confusion avait été constatée dans la pratique.

Les trois premiers bulletins de la série *Insights into IAS 36* sont les suivants :

- *Overview of the Standard*;
- *Scope and structure of IAS 36*;
- *If and when to undertake an impairment review*.

Le premier bulletin intitulé *Overview of the Standard* fournit une vue d'ensemble des principales exigences d'IAS 36 et décrit les grandes étapes à suivre pour les appliquer.

Le deuxième bulletin *Scope and structure of IAS 36* aborde la question du champ d'application du test de dépréciation (c'est-à-dire les types d'actifs qui sont inclus) et la façon dont le test est structuré (c'est-à-dire le niveau auquel les actifs sont testés).

Le troisième bulletin dont il est fait mention ci-dessus précise comment déterminer si un test de dépréciation détaillé, tel qu'il est défini dans IAS 36, est nécessaire et quand il doit être effectué, le cas échéant.

Ressource

Les bulletins mentionnés ci-dessus sont joints à la présente *Alerte de votre conseiller*.

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Insights into IAS 36

Overview of the Standard

IAS 36 'Impairment of Assets' is not a new Standard, and while many of its requirements are familiar, an impairment review of assets (either tangible or intangible) is frequently challenging to apply in practice. This is because IAS 36's guidance is detailed, prescriptive and complex in some areas.

The articles in our 'Insights into IAS 36' series have been written to assist preparers of financial statements and those charged with the governance of reporting entities understand the requirements set out in IAS 36, and revisit some areas where confusion has been seen in practice.

This article provides an 'at a glance' overview of IAS 36's main requirements and outlines the major steps in applying those requirements.

Objective of IAS 36

The objective of IAS 36 is to outline the procedures an entity should apply to ensure the carrying values of all its assets are not stated above their recoverable amounts (the amounts to be recovered through use or sale of the assets). To accomplish this objective, IAS 36 provides guidance on:

- the level at which to review for impairment (eg individual asset level, cash-generating units (CGU) level or groups of CGUs)
- if and when a quantitative impairment test is required, including the indicator-based approach for an individual asset that is not goodwill, an indefinite life intangible asset or intangible asset not yet ready for use
- how to perform the quantitative impairment test by estimating the asset's (or CGU's) recoverable amount
- how to recognise and reverse an impairment loss
- when and under what circumstances an entity must reverse an impairment loss, and
- the detailed disclosure requirements (both in the case of impairment and also in the absence of impairment).

IAS 36 Key definitions

IAS 36 defines key terms that are essential to understanding its guidance. The most significant definitions are highlighted in below:

Carrying amount	Impairment loss	Recoverable amount	Value in use
The amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon	The amount by which the carrying amount of asset or a CGU exceeds its recoverable amount	The higher of an asset or CGU's fair value less costs of disposal (FVLCOD) and its value in use (VIU)	The present value of the future cash flows expected to be derived from an asset or CGU

Below is a summary of IAS 36's main requirements:

Area of IAS 36	Requirement
Principle	The overall principle in IAS 36 is that assets should not be carried above their recoverable amount.
Scope	IAS 36 applies to all assets other than those for which the measurement requirements of other IFRS are such that an IAS 36-based impairment review is irrelevant or unnecessary. Assets outside IAS 36's scope include: • inventories • financial assets in the scope of IFRS 9 'Financial Instruments' • contract assets and assets arising from costs to obtain or fulfill a contract recognised in accordance with IFRS 15 'Revenue from Contracts with Customers' • deferred tax assets • assets arising from employee benefits • assets classified as held for sale • investment property measured using the fair value model • biological assets related to agricultural activity within the scope of IAS 41 'Agriculture' measured at fair value less costs to sell, and • contracts that are assets and any assets for insurance acquisition cash flows in the scope of IFRS 17 'Insurance Contracts'. IAS 36 does apply to: • financial assets classified as subsidiaries, associates and joint ventures (unless measured at fair value) • property, plant and equipment and intangible assets carried at a revalued amount in accordance with other IFRS, and • Right-of-use assets measured in accordance with IFRS 16 'Leases'.
Key definitions	IAS 36 defines key terms that are essential to understanding its guidance including, but not limited to: • CGU • corporate assets • costs of disposal • impairment loss • recoverable amount • VIU, and • FVLCOD.

Area of IAS 36	Requirement
Identifying an asset that may be impaired	IAS 36 prescribes the timing requirements for performing quantitative impairment testing as well as potential 'indicators' of impairment that may trigger impairment testing for some assets or groups of assets. Specifically, IAS 36 requires that: • goodwill, indefinite life intangibles and intangible assets not yet available for use are tested for impairment at least annually, in addition to when there is any indication of impairment, and • all other assets are tested for impairment when there is any indication that the asset may be impaired. IAS 36 also outlines some limited exceptions to the requirements noted above.
Level of review (individual asset or group of assets)	IAS 36 prescribes the level of review for impairment: • where possible, an entity will estimate the recoverable amount of an individual asset, or • when this is not possible, an entity will determine the recoverable amount of the CGU to which an asset belongs. For the purposes of impairment testing, IAS 36 prescribes how to allocate goodwill and coroporate assets to CGUs.
Measuring recoverable amount	When an entity needs to test an asset or CGU for impairment, it must determine its recoverable amount. IAS 36 defines the recoverable amount as the higher of the asset's or CGU's FVLCOD and VIU.
FVLCOD	IAS 36 provides guidance to determine FVLCOD including: • providing examples of 'costs of disposal' and items that do not meet that definition, and • outlining situations where it may be necessary to consider some recognised liabilities to determine the recoverable amount.
VIU	IAS 36 prescribes the elements that should be reflected in the calculation of an asset's or CGU's VIU including: • an estimate of the future cash flows the entity expects to derive from the asset • expectations about possible variations in the amount or timing of those future cash flows • the time value of money • the price for bearing the uncertainty inherent in the asset, and • other factors such as illiquidity that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset. The guidance provides additional considerations in determining an appropriate estimate/rate for each of the above elements.
Recognising an impairment loss	IAS 36 requires an entity to recognise an impairment loss when the carrying amount of an asset or CGU exceeds its recoverable amount, and provides guidance on how to recognise that loss, by outlining: • the requirements for recognising and measuring impairment losses for an individual asset • the requirements for allocating losses when such losses are calculated for a CGU, and • additional considerations for allocating an impairment loss when there is a non-controlling interest.

Area of IAS 36	Requirement
Reversing an impairment loss	IAS 36 sets out the requirements for reversing an impairment loss recognised for an asset or CGU in prior periods by: • prescribing timing for assessment • providing indicators that an impairment loss recognised in prior periods for an asset (other than goodwill) or CGU may no longer exist or may have decreased, and • prescribing the accounting for reversing a prior impairment loss, including limitations on the amount that can be reversed.
Disclosures	IAS 36 sets out the disclosure requirements related to impairment. Some disclosures apply in the event an entity records an impairment loss while others are required irrespective of any impairment loss.

IAS 36's step by step impairment approach

IAS 36 prescribes the procedures that an entity applies to ensure that assets are carried at no more than their recoverable amounts (the impairment review). Very broadly, the impairment review comprises:

- an assessment phase, and
- a testing phase, if required.

Assessment phase	**What?**	Identifying assets within the scope of IAS 36 and determining the structure of the impairment review (scope and structure).
	If and when?	Determining if an impairment test is required and if so, when.
Testing phase	**How?**	If required, understanding how to estimate the recoverable amount, compare the recoverable amount to the carrying amount, and recognise or reverse any impairment loss (the reversal of goodwill impairment loss is not allowed).

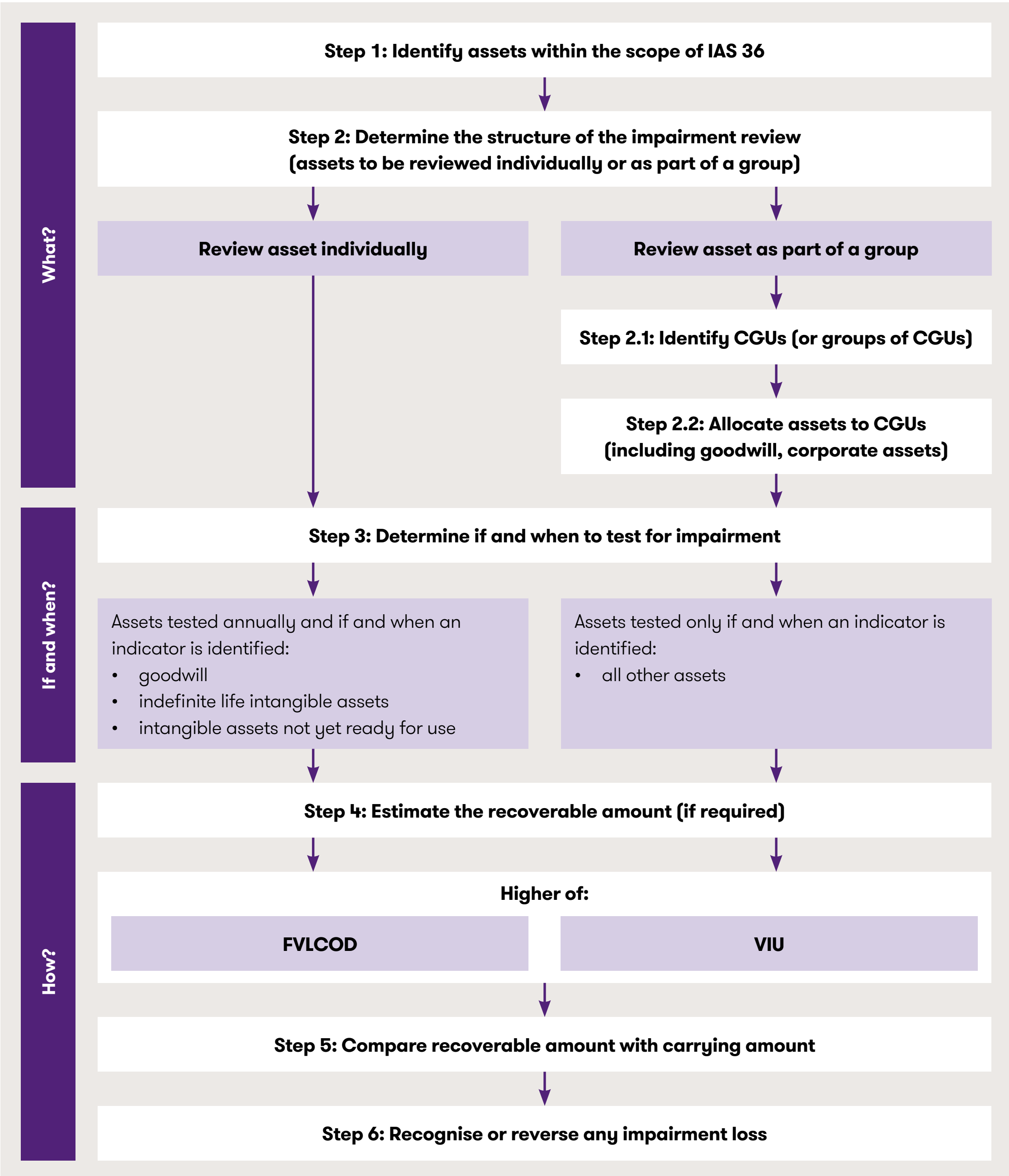
We use the phrase 'impairment review' to encompass both the assessment and testing phase. In the assessment phase management:

- identifies the assets within the scope of IAS 36
- identifies the assets for which a quantified impairment test is required. Goodwill, indefinite life intangibles and those not available for use are tested at least annually, even if there is no indication they might be impaired. Other assets are assessed and are tested only if one or more indicators are identified
- determines which assets will be tested individually and which as part of a CGU or group of CGUs, and identifies the CGUs to which assets belong (we refer to this as the 'structure' of the impairment review). IAS 36 requires that an entity tests individual assets wherever possible; however, it is usually not possible to determine the recoverable amount for an individual asset. As a result, more times than not, management must identify the CGU (or groups of CGUs) to which the individual asset relates. Additionally, management must allocate goodwill and corporate assets to a CGU (or groups of CGUs) for the purpose of applying IAS 36.

These steps determine the scope of the quantified impairment testing (the testing phase). In the testing phase management:

- estimates the recoverable amount for the assets and CGUs as required
- compares the recoverable amount to the carrying amount, and
- records (or reverses, if applicable) any impairment loss, to the individual assets, or allocated among the assets in impaired CGUs in accordance with IAS 36's guidance.

With this in mind, the following step-by-step guide is useful in applying IAS 36:



How we can help

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Insights into IAS 36

Scope and structure of IAS 36

IAS 36 'Impairment of Assets' provides the core principles when assessing if an asset should be impaired. However, due to the complex nature of the guidance, the requirements of IAS 36 can be challenging to apply in practice.

The articles in our 'Insights into IAS 36' series have been written to assist preparers of financial statements and those charged with the governance of reporting entities understand the requirements set out in IAS 36, and revisit some areas where confusion has been seen in practice.

This article looks at the scope of the impairment review (ie the types of assets that are included) and how it is structured (ie the level at which assets are reviewed). Assets must be reviewed for impairment at the lowest level possible – sometimes this is at the individual asset level but more often assets are allocated to a cash generating unit (CGU) for impairment review purposes. Further, goodwill and corporate assets will need to be allocated to a CGU or groups of CGUs.

This article covers the following two steps of any impairment review:

- Step 1: Identify assets within the scope of IAS 36
- Step 2: Determine the structure of the impairment review.

The remaining steps will be considered in subsequent articles. For a summary of the steps in applying IAS 36, refer to our article 'Insights into IAS 36 – Overview of the Standard'.

Step 1: Identify assets within the scope of IAS 36

IAS 36 must be applied in accounting for the impairment of all assets, unless they are specifically excluded from its scope. The scope exceptions cover assets for which the requirements of other IFRS render an IAS 36-based impairment review irrelevant or unnecessary (eg – IAS 2 'Inventories' requires that inventory be written down to its net realisable value if lower than cost, so inventory is explicitly excluded from the scope of IAS 36). The table below summarises IAS 36's scope.

Asset	In scope	Out of scope	If out of scope, the applicable IFRS
Inventories		✓	IAS 2
Contract assets and assets arising from costs to obtain or fulfil a contract		✓	IFRS 15 'Revenue from Contracts with Customers'
Assets not ready for use	✓		
Deferred tax assets		✓	IAS 12 'Income Taxes'
Assets arising from employee benefits		✓	IAS 19 'Employee Benefits'
Financial assets within the scope of IFRS 9 'Financial Instruments'		✓	IFRS 9
Financial assets classified as subsidiaries (as defined in IFRS 10 'Consolidated Financial Statements'), associates (as defined in IAS 28 'Associates and Joint Ventures'), and joint ventures (as defined in IFRS 11 'Joint Arrangements') accounted for under the cost method for purposes of preparing the parent's separate financial statements	✓		
Investment property (measured using the fair value model)		✓	IAS 40 'Investment Property'
Investment property (measured at cost)	✓		
Biological assets (measured at fair value less costs of disposal)		✓	IAS 41 'Agriculture'
Contracts within the scope of IFRS 17 'Insurance Contracts' that are assets	✓		IFRS 17

Asset	In scope	Out of scope	If out of scope, the applicable IFRS
Non-current assets (or disposal groups) classified as held for sale		✓	IFRS 5 'Assets held for Sale and Discontinued Operations'
Plant, property and equipment, including revalued assets	✓		
Intangible assets, including goodwill and revalued assets	✓		
Right-of-use Assets in the scope of IFRS 16 'Leases'	✓		

Other assets not specifically excluded in the above table are within the scope of IAS 36.

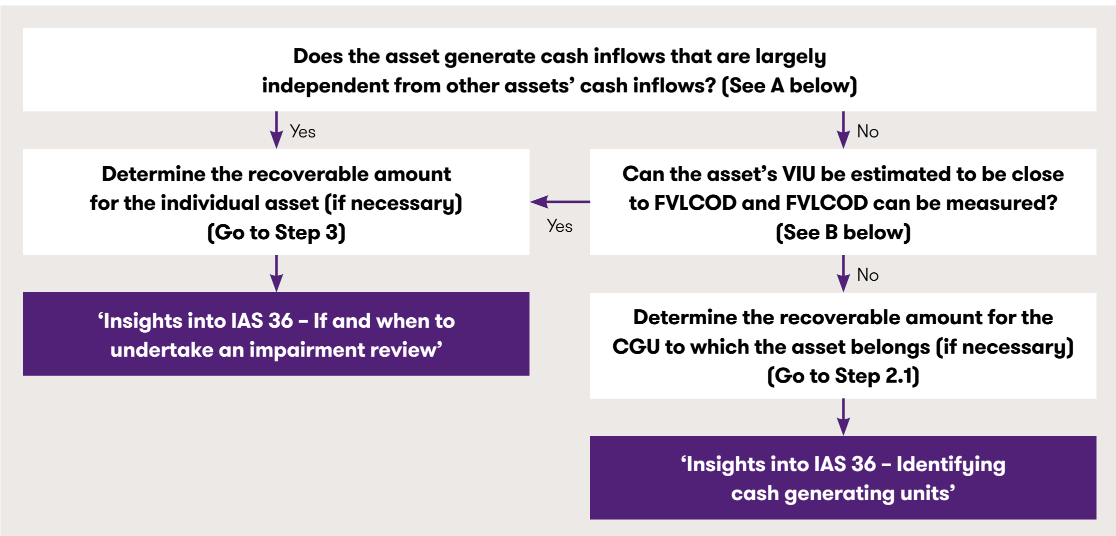
Step 2: Determine the structure of the impairment review

Once an entity has confirmed the assets in question are within the scope of IAS 36, the next step is to determine whether the asset will be reviewed for impairment individually or as part of a larger group of assets or CGUs (in other words, the structure of the impairment review for purposes of applying IAS 36).

When possible, IAS 36 should be applied at the individual asset level. This will be possible only when:

- the asset generates cash inflows that are largely independent of those from other assets or groups of assets) or
- the asset's value in use (VIU) can be estimated to be close to fair value less costs of disposal (FVLCOD) and FVLCOD can be measured.

The below flowchart describes the assessment to determine the structure of the impairment review:



A. Cash inflows that are largely independent

When determining if an asset generates cash inflows that are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors including:

- how management monitors the entity's operation (such as by product lines, businesses, individual locations, districts or regional areas), or
- how management makes decisions about continuing or disposing of the entity's assets and operations.

The following example shows how this guidance may be applied in practice.

Example 1 – Largely independent cash flows

A television network owns 50 TV programmes of which 20 were purchased and 30 were self-created. The network recognises each purchased programme as an intangible asset at the price paid while it expenses the cost of developing new and maintaining old programmes as incurred. Cash inflows are generated from licensing of broadcasting rights to other networks and advertising sales and are identifiable for each programme. The network manages programmes by customer segments. Programmes within the same customer segment affect to some extent the level of advertising income generated by other programmes in the segment. Management often abandons older programmes before the end of their economic lives to replace them with newer programmes targeted to the same customer segment.

Analysis

In this case, the cash inflows from each TV programme are largely independent. Even though the level of licensing and advertising income for a programme is influenced by the other programmes in the customer segment, cash inflows are identifiable for each individual programme. In addition, although programmes are managed by customer segments, decisions to abandon programmes are made on an individual basis.

Practical insight – Cash inflows versus net cash flows

IAS 36's guidance on whether recoverable amount can be determined for an individual asset specifically refers to cash inflows, not net cash flows or cash outflows. Accordingly, if an asset's cash inflows are largely independent but some of the related costs are interdependent with other assets, recoverable amount must still be determined at the individual asset level (if necessary).

B. VIU can be estimated to be close to FVLCOD and FVLCOD can be measured

From the above flowchart, if an entity determines the asset in question does not generate cash inflows that are largely independent of those from other assets, it should assess if the asset's VIU can be estimated to be close to FVLCOD. The VIU of an asset may be assessed as close to or less than FVLCOD when the asset is no longer in use, or soon to be replaced or abandoned, such that the estimated future cash flows from continuing use of the asset are negligible (eg, where an entity holds a brand solely for defensive purposes). Further, VIU may be assessed to be close to FVLCOD in the limited circumstances when the entity's estimated cash flows from using the asset are consistent with the cash flows market participants would expect to generate, and costs of disposal are not material (ie when there are no entity-specific advantages or disadvantages, including tax-related factors).

When VIU can be estimated to be close to FVLCOD, the entity will determine the recoverable amount for the individual asset (the asset will not be included in a CGU for impairment assessment purposes) and any impairment is recognised immediately at the individual asset level.

Finally, when there is no reason to believe that VIU materially exceeds FVLCOD, IAS 36 allows an entity to estimate FVLCOD only for purposes of determining the recoverable amount.

The following example illustrates one application of this guidance.

Example 2 – Where VIU cannot be estimated to be close to FVLCOD

A mining entity owns a private railway to support its mining activities. The private railway does not generate cash inflows that are largely independent of the cash inflows from other assets of the mine. The costs of disposal of the private railway are expected to be high.

Analysis

It is not possible to estimate the recoverable amount of the private railway on a standalone basis because its VIU cannot be determined standalone and is probably different from the amount it would receive on disposal (in part due to the high costs associated with disposal). Therefore, the entity estimates the recoverable amount of the CGU to which the private railway belongs, which could be the mine as a whole.

Practical insight – Structure of the impairment review

Most assets generate cash inflows only in combination with other assets as part of a larger CGU. It is not possible to calculate a recoverable amount for most individual assets that are held for continuing use.

Management must then identify the CGU to which an asset belongs to determine if quantitative impairment testing is required. The relevant guidance and application issues associated with this process are discussed in our article 'Insights into IAS 36 – Identifying cash generating units'.

How we can help

We hope you find the information in this article helpful in giving you some insight into IAS 36. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

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Insights into IAS 36

If and when to undertake an impairment review

Usually non-current assets are measured in the financial statements at either cost or revalued amount. However, IAS 36 'Impairment of Assets' requires assets to be carried at no more then their revalued amount and any difference to be recorded as an impairment. However, its requirements of when and if to undertake an impairment review are sometimes challenging to apply in practice.

The articles in our 'Insights into IAS 36' series have been written to assist preparers of financial statements and those charged with the governance of reporting entities understand the requirements set out in IAS 36, and revisit some areas where confusion has been seen in practice.

This article explains if and when a detailed impairment test as set out in IAS 36 is required. The guidance prescribes different requirements for goodwill and indefinite life intangible assets (including those not ready for use) when compared to all other assets. As such, this article will cover Step 3 in the impairment review which is to determine if and when to test for impairment is needed.

For a summary of the steps in applying IAS 36, refer to our article 'Insights into IAS 36 – Overview of the Standard'.

Step 3: If and when an entity should test for impairment

IAS 36 requires an entity to a perform a quantified impairment test (ie to estimate the recoverable amount):

- if at the end of each reporting period, there is any indication of impairment for the individual asset or CGU (indicator-based impairment), and
- annually for the following types of assets, irrespective of whether there is an indication of impairment:
  - intangible assets with an indefinite useful life
  - intangible assets not yet available for use, and
  - goodwill acquired in a business combination.

Timing requirements for impairment testing by asset type are as follows:

Asset	Test if indicator of impairment present during the course of or at the end of the reporting period	Test at least annually
• **Goodwill** • **Indefinite life intangible asset** • **Intangible asset not yet available for use**	Yes	Yes
All other assets within the scope of IAS 36, but not included above	Yes and review the remaining useful life, the depreciation/amortisation method, and the asset's residual value	No

"IAS 36 requires an entity to assess at the end of each reporting period whether there is any indication that an asset or CGU may be impaired."

Indicator-based impairment testing

IAS 36 requires an entity to assess at the end of each reporting period whether there is any indication that an asset or CGU may be impaired. This requirement also applies to goodwill, indefinite life intangible assets, and intangible assets not yet ready for use (although, in practice, an indicator review is necessary only at period ends that do not coincide with the annual test). If any such indication exists, the entity should estimate the recoverable amount of the asset or CGU. The process to estimate the recoverable amount is discussed in our article 'Insights in IAS 36: Estimating recoverable amount'.

Indicators

IAS 36 provides a non-exhaustive list of external, internal and other indicators that an entity should consider, summarised these are as follows:

External sources of information

- Observable indications of a significant and unexpected decline in market value.
- Significant negative changes (have occurred or are expected) in the technological, market, economic or legal environment.
- Market interest rates or other market rates of return on investments have increased (which will increase the discount rate used in calculating an asset's VIU).
- Carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset.
- Significant negative changes (have occurred or are expected) in the extent to which an asset is (or is expected to be used) (eg an asset becoming idle, plans to discontinue or dispose of the asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite).
- Evidence is available from internal reporting that indicates the economic performance of an asset is, or will be, worse than expected.

Other indicators

- For an investment in a subsidiary, joint venture or associate, the investor recognises a dividend from the investment and evidence is available that:
  - the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets, including associated goodwill, or
  - the dividend exceeds the total comprehensive income of the subsidiary, joint venture or associate in the period the dividend is declared.
- The fact that an active market no longer exists for a revalued intangible asset.

Generally, internal indicators would provide reasonably direct evidence that a specific asset or CGU may be impaired. For example, internal reports might show:

- cash flows for acquiring the asset or CGU, or subsequent cash needs for operating or maintaining it, are significantly higher than those originally budgeted
- actual net cash flows or operating profit or loss flowing from the asset or CGU are significantly worse than those budgeted
- a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset or CGU, or
- operating losses or net cash outflows for the asset or CGU, when current period amounts are aggregated with budgeted amounts for the future.

However, external sources of information will more typically be broader and less clearly linked to a specific asset or CGU (for example, a decline in market capitalisation to less than the carrying value of the entity's net assets). This then may require the use of judgement to determine which assets or CGUs should be tested in response to an external source of information. The example below illustrates this point.

Example – Bridging the gap from external indicators of impairment to testing specific assets

BioTech Research Company (BTRC) develops and sells a range of diagnostic products. It operates from three manufacturing and distribution hubs. Each hub is considered to be a separate CGU. BTRC is preparing its financial statements for its year-ended 31 December 20X1. Summary financial information for each CGU is as follows:

CU000s	CGU 1	CGU 2	CGU 3	Total
Goodwill	1,900	–	–	1,900
Other intangible assets (amortising)	1,100	500	1,000	2,600
PPE	500	1,500	700	2,700
Subtotal	**3,500**	**2,000**	**1,700**	**7,200**
Corporate HQ	–	–	–	1,800
Net debt	–	–	–	(3,500)
Other assets and liabilities (net)	–	–	–	(500)
Net book value	**–**	**–**	**–**	**5,000**

The market capitalisation of BTRC as at 31 December 20X1 is CU3,000.

Analysis

As part of its indicator assessment, management should compare market capitalisation (CU3,000) with net book value (CU5,000). Given the seemingly material 'market to book' shortfall of CU2,000, a detailed impairment test is probably required. However, BTRC should consider all facts and circumstances, including:

- whether some or all of the shortfall is attributable to assets and liabilities outside IAS 36's scope (eg if the fair value of the entity's net debt is significantly different to its carrying value of CU3,500)
- whether any discounts or premia to the market capitalisation should be considered, to reflect control and liquidity
- the volume of trading the company's shares
- share price volatility
- length of time over which a shortfall is observed
- the reason for any notable decreases in the market capitalisation and the extent to which management information is known to the market, and
- other possible impairment indicators.

If, after considering these factors management concludes that detailed impairment testing is required, the question arises as to which CGUs and assets should be tested. CGU 1 needs to be tested for impairment in any event because goodwill has been allocated to it; however determining the relevance of the market to book shortfall for CGU 2 and 3 will require BTRC to make a judgement after considering all facts and circumstances including:

- whether there is a reasonable basis to conclude that the market capitalisation to book value shortfall relates to a specific CGU or CGUs
- the existence or otherwise of other impairment indicators for each CGU or
- the results of impairment testing for CGU 1 (if CGU 1 is impaired, the market capitalisation to book value shortfall may be reduced or eliminated).

If BTRC is unable to link the shortfall to particular CGUs it may conclude that all CGUS should be tested for impairment.

Practical insight – Indicators that develop over time

In practice, an adverse trend might develop over a series of reporting periods (eg a decline in market demand). While an entity may not be able to pinpoint a specific event or moment when an adverse trend becomes an impairment indicator, adverse trends such as this clearly cannot be ignored. Management will need to factor these types of trends into its impairment review and use judgement based on the specific facts and circumstances to decide whether the adverse trend constitutes an impairment indicator.

Review useful life, depreciation/amortisation method, residual value

The existence of an impairment indicator may also suggest that the remaining useful life, depreciation (amortisation) method or the residual value for the asset needs to be adjusted. When an entity identifies an indicator of impairment, the remaining useful life, the depreciation (amortisation) method or the residual value of the asset should be reviewed (and adjusted if necessary) even if no impairment loss is recognised.

Annual impairment testing

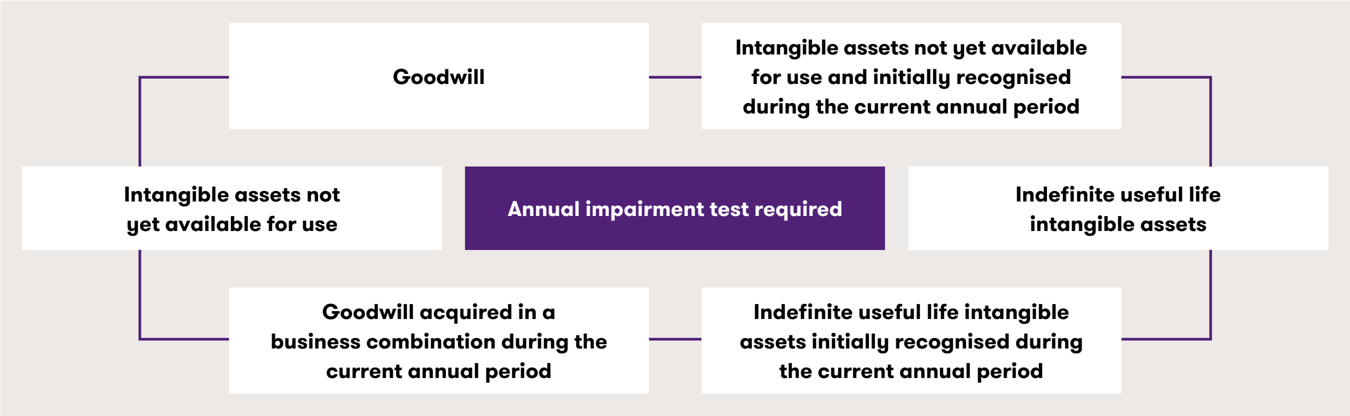
The Standard requires an intangible asset with an indefinite useful life, an intangible asset not yet available for use and goodwill to be tested for impairment:

- when an indication of impairment exists, and
- at least annually, irrespective of indicators.

Further, the intangible asset and/or goodwill should be tested for impairment before the end of the current annual period if:

- the asset was initially recognised during the current annual period, or
- some or all of the goodwill allocated to the CGU under review was acquired in a business combination during the current annual period.

For a related discussion on the provisional allocation of goodwill, see our article 'Insights into IAS 36 – Allocate goodwill to the cash generating units'.



Timing of the annual impairment test

The annual impairment test for an asset may be performed anytime during the annual period provided the test is performed at the same time every year. Assets that are subject to annual testing may be tested at different dates provided the date is consistent whenever the test is undertaken. This provides some flexibility to spread the workload while providing a safeguard against manipulation.

Practical insight – Changing the annual impairment testing date

An entity may wish to change its annual impairment testing date, perhaps to align with the budget cycle or to reduce the testing burden in another period. IAS 36 is silent on this. In our view, a change of date is acceptable in reasonable circumstances subject to the entity demonstrating this has not resulted in avoiding an impairment loss. For example, an entity with a 31 December year-end might wish to change its testing date from 30 June to 31 December. In the current annual period it could conduct tests at both dates, then test only at 31 December in the following annual period (assuming no indicators are identified at other period ends). In our view, paragraph 96 of IAS 36 serves as an anti-abuse provision which will not be breached if this approach is taken and the entity consistently tests at the new date on a go-forward basis. We do not regard moving to a new testing date to be a change in accounting policy. However, entities should consider disclosing the change and the reasons for it.

How we can help

We hope you find the information in this article helpful in giving you some insight into IAS 36. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit **www.grantthornton.global/locations** to find your local member firm.

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