Disclosure of impairment

Impairment is likely to be more prevalent in difficult economic conditions that many countries currently experience. The accounting treatment of impairment inherently requires significant judgement and estimation. This article provides a brief overview of the disclosure that should be provided for users to understand impairments in financial statements.

IFRS requires entities to consider and account for the impairment of assets. This ensures that their carrying amounts do not exceed the economic benefits expected from the asset. Some accounting standards contain specific impairment requirements for assets within their scope; for example, IFRS 9 *Financial Instruments* governs the accounting for impaired financial assets carried at amortised cost, and IAS 12 *Income Taxes* has rules relating to deferred tax assets. IAS 36 *Impairment* applies to assets not carried at fair value (thereby implicitly tested for impairment) or tested under other standards.

This article recaps the basic measurement principles of IAS 36. An overview of the standard's disclosure requirements, something that preparers often neglect in practice, follows.

Calculating impairment

An entity should generally only test an asset for impairment if an indication of impairment exists. (There are some exceptions for goodwill and certain other intangible assets).

Broadly, an asset is impaired if its carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and its value in use.

It may not be possible to determine either or both of these variables for assets that do not generate cash flow independently. IAS 36, therefore, provides for instances in which a grouping of assets is tested for impairment. It refers to this grouping as a cash-generating unit ('CGU').

Disclosure of impairment

IAS 36 requires the amount of impairment losses (and reversals) recognised in profit or loss or other comprehensive income, respectively. This disclosure must be provided for each asset class. If an entity reports segment information, it must also disclose the amounts attributable to each reportable segment. Since these amounts often feature in reconciliations, for example, a reconciliation of the opening and closing balances of a class of property, plant and equipment, preparers generally comply with this disclosure requirement.

The standard, however, also requires detailed disclosure for each individual asset or CGT for which the entity recognised an impairment loss (or reversal) in a reporting period. This disclosure must include:

- A description of the nature of the individual asset or the CGU. If the composition of the CGU has changed, the entity must disclose current and former aggregation and reasons for the change.
- The reportable segment that the asset or CGU belongs to if the entity reports segment information.
- A description of the events and circumstances that led to the impairment (or reversal).
- The impairment loss (or reversal) for that asset or CGU. The following further information to understand this amount:
    - The asset or CGU's recoverable amount.
    - If the recoverable amount is the fair value less cost to sell, information about the IFRS 13 fair value hierarchy applied.
    - If the recoverable amount is the value in use, the discount rate(s) applied and possibly the assumptions used.

In conclusion

The calculation of impairment is often requires significant judgement and estimation. The disclosure required by IAS 36 is essential for users of financial statements to fully understand these impairments and the assumptions that affect it. In

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tough economic conditions, when impairment is more prevalent, this is a focus area for preparers.