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## LKAS 36 : Impairment of Assets

## Chartered Accountancy

Strategic Level
Advanced Business Reporting (ABR)

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# LKAS 36 Impairment of Assets - overview 



- Ensure

Assets are not carried above their recoverable amount


- IA with indefinite lifetime, IA not yet ready to use and Goodwill - at first YE and at least annually
- Other assets - look for indications at least annually
- If indication exist - then test for impairment
- If no - no further action


1. Single asset impairment
1.1 Impairment
1.2 Reversal
2. Impairment and reversal of group of assets
3. Impairment of group of assets with GW
3.1 Fully owned subsidiary 3.2 Partially owned sub

## LKAS 36 Impairment of Assets - Discussion

## Indications

of
impairment

Recoverable amount

## External

- Significant decline in asset value
- Significant adverse changes in technological, market, economical or legal environment
- Increase in market interest rates
-Market capitalization < NAV


## Internal

- Physical damage
- Changes in usage of the asset / asset being idle, restructuring or discontinuation of operations
- Economic performance being less than expected


## Key points

- Need not always measure FV-CTS and VIU. If one is higher than CA then no need to determine the other
- FV-CTS can be determined even if no active market.

But if it cannot be measured then VIU $=$ RA

- In some cases the FV-CTS = VIU. E.g. assets held for sale as the VIU is the disposal proceeds
- RA is determined for an individual asset, unless it does not generate independent cash flows then the RA is determined for the CGU it belongs to


## LKAS 36 Impairment of Assets - Discussion



- FV is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- Cost of disposals include,
- Legal, stamp duty and similar transaction cost / Cost of removing the asset / Incremental cost incurred to bring the asset to a saleable condition
-Doesn't include termination benefits and cost related to reorganizing a business after disposal

- Estimate of FCF expected from the asset
- Expectation on the possible variation on amount and timing of those CF
- Time value of money represented by current market risk free rate of interest
- the price for bearing the uncertainty of the asset - other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.


## LKAS 36 Impairment of Assets - Discussion

Steps in calculating the VIU

Illustrations and practice questions

1.) Estimate the future cash inflows and outflows from continuing to use the asset.
2.) Estimate the FCF to be derived by disposing the asset
3.) Apply appropriate discount rate to those FCF

## Goodwill Calculation Illustration



## Goodwill Calculation Illustration



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$\square$

Goodwill (2) $=1,000+250-$
$600=650$

