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Insight into IAS 36: Overview of the Standard

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International Accounting Standard No. 36 (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.

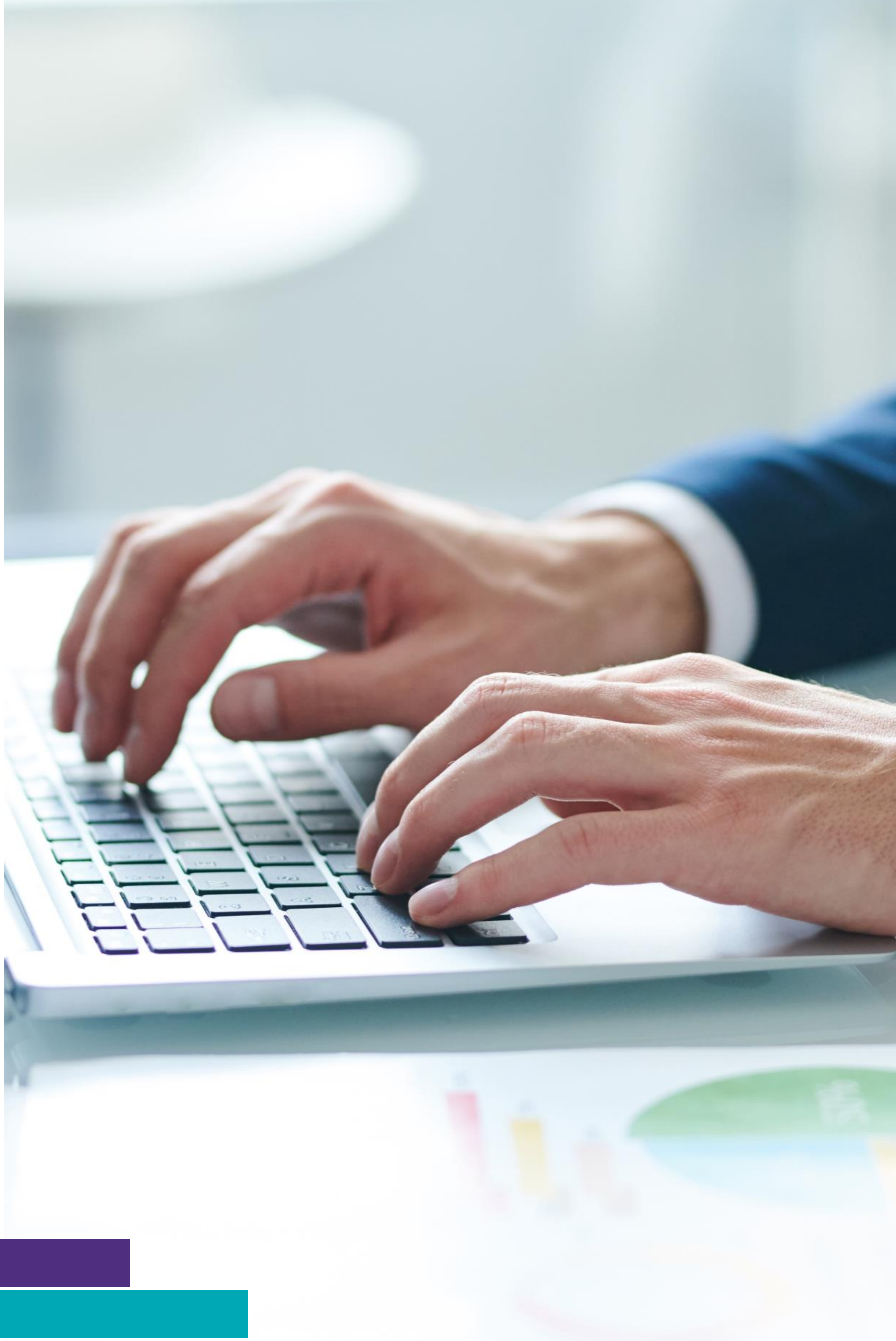
Basically, IAS 36 provides the definition of key terms that are essential to understanding its guidance such as carrying amount, cash-generating unit (CGU), impairment loss, recoverable amount, value in use, etc. Such terms are used in the key principle of IAS 36 – "assets should not be carried above their recoverable amount."

To accomplish this principle, then, 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.

In which:

Phrase	Task	Description
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



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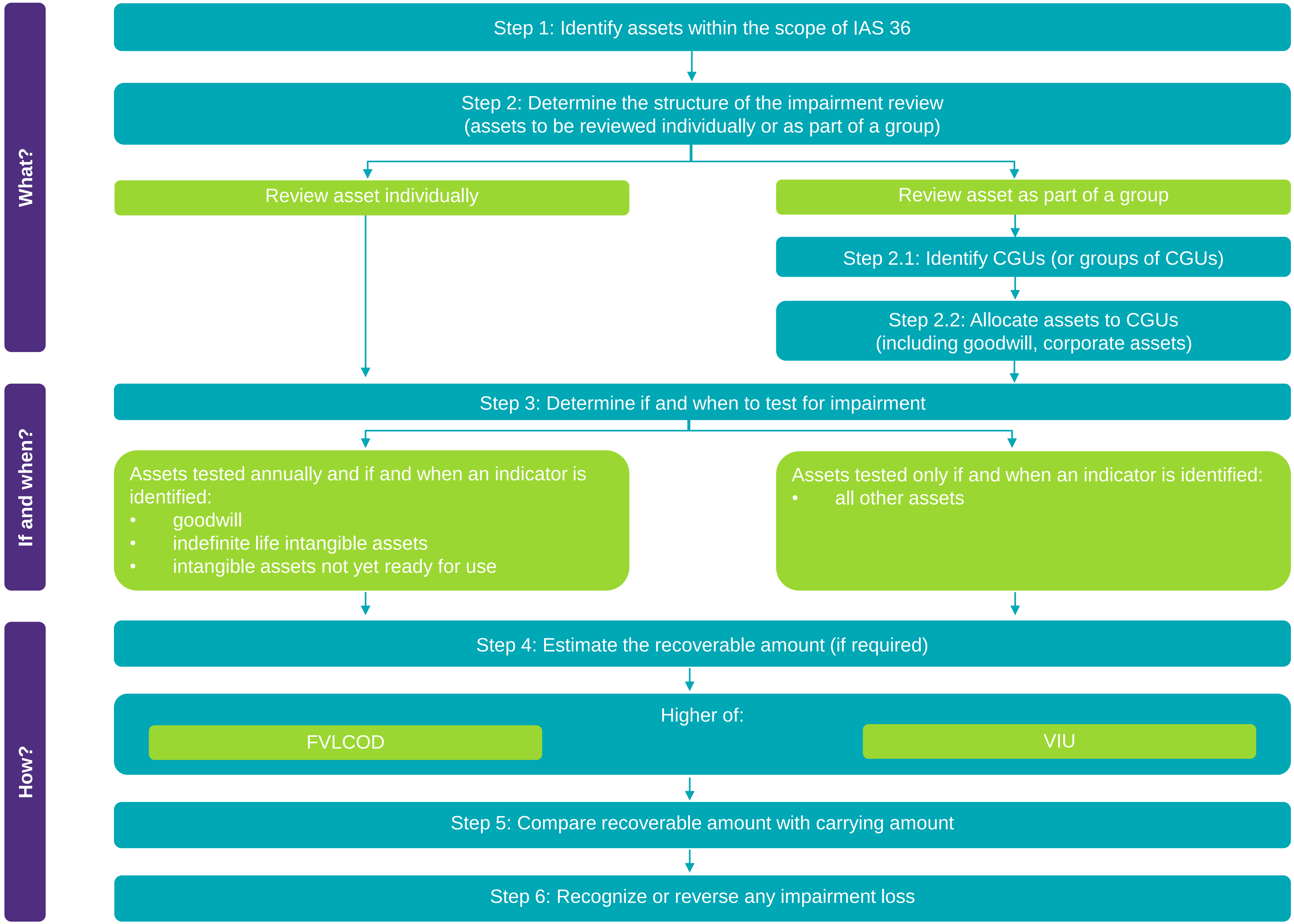
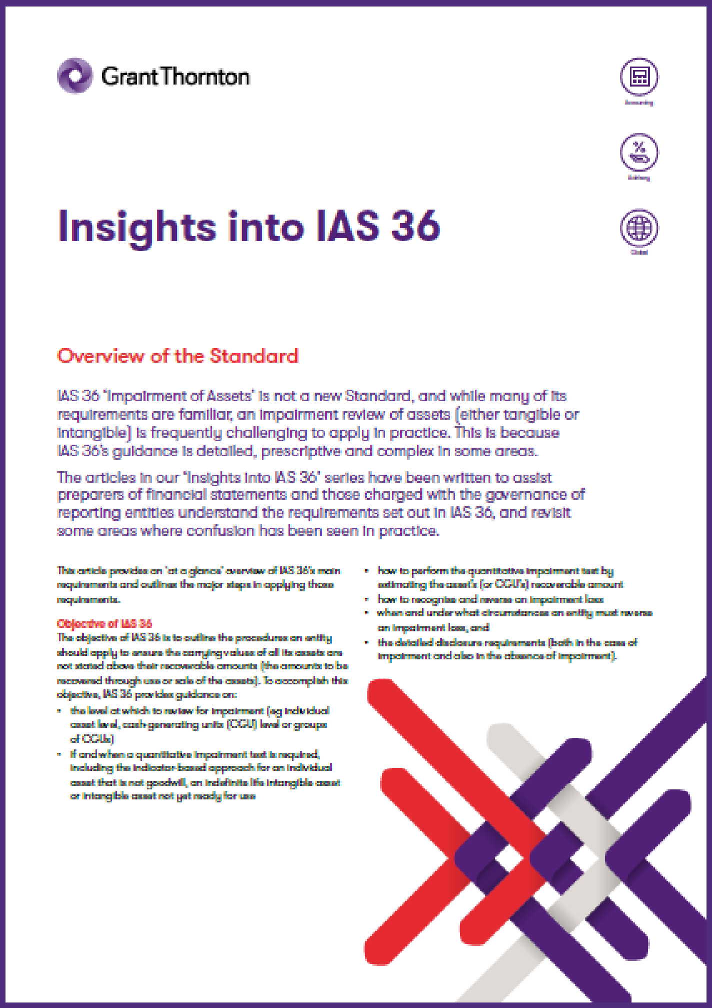
Details of the impairment review in step-by-step are illustrated in the following diagram:



In which:

- *FVLCOD represents CGU's fair value less costs of disposal.*
- *VIU represents CGU's value in use which is the present value of the future cash flows expected to be derived from an asset or CGU.*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Overview of the Standard

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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).

Our full publication on "Insights into IAS 36 – Overview of the Standard"

For detailed instructions on IAS 36, please read our full report in English at the following link:

View the publication here

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Contact

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