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## ACCA F7

**Financial Reporting(INT.)**  
**Chapter 4 Impairment of assets**

**ACCA Lecturer: Roy Wang**





# IAS 36 Impairment of assets

1

**HOW、WHEN**

2

**CGU**

3

**Example**



# IAS 36 Impairment of asset

## ◆ When

### **Internal Indicators:**

- Asset obsolete or damage;
- Operating losses for the current period;
- Loss of key employees;
- Reconstructions.

### **External Indicators:**

- Adverse change in the commercial environment(decrease demand for the asset)
- Market value of share price is less than book value

Test **annually** for certain assets:

- Intangible assets with an infinite useful life;
- Goodwill acquired in a business combination.



# IAS 36 Impairment of asset

HOW



# IAS 36 Impairment of asset

## Recognition

### *Assets carried at historical cost*

The impairment loss is recognised as an expense in profit or loss.

### *Revalued assets*

The impairment loss is accounted for under the appropriate rules of the applicable IFRS. E.g. under IAS 16 *Property, Plant and Equipment* the revaluation decrease is charged **first to other comprehensive income** (in respect of any revaluation surplus relating to the particular asset) and any **remainder** as an expense in **profit or loss**.



## IAS 36 Impairment of asset

### Cash-generating unit (IAS 36)

A *cash-generating unit* is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.



## IAS 36 Impairment of asset

A cash-generating unit comprises the following assets:

	\$'000
Building	700
Plant and equipment	200
Goodwill	90
Current assets	<u>20</u>
	<u>1,010</u>

One of the machines, carried at \$40,000, is damaged and will have to be scrapped. The recoverable amount of the cash-generating unit is estimated at \$750,000.

What will be the carrying amount of the building when the impairment loss has been recognised?  
(to the nearest \$'000)

- A \$597,000
- B \$577,000
- C \$594,000
- D \$548,000

(2 marks)



## IAS 36 Impairment of asset

**What is the recoverable amount of an asset?**

- A** Its current market value less costs of disposal
- B** The lower of carrying amount and value in use
- C** The higher of fair value less costs of disposal and value in use
- D** The higher of carrying amount and market value





## IAS 36 Impairment of asset

A machine has a carrying amount of \$85,000 at the year end of 31 March 20X9. Its market value is \$78,000 and costs of disposal are estimated at \$2,500. A new machine would cost \$150,000. The company which owns the machine expects it to produce net cash flows of \$30,000 per annum for the next three years. The company has a cost of capital of 8%.

What is the impairment loss on the machine to be recognised in the financial statements at 31 March 20X9?

- A \$7,687
- B \$9,500
- C \$1,667
- D \$2,200

(2 marks)



## IAS 36 Impairment of asset

The following information relates to an item of plant.

- Its carrying amount in the statement of the financial position is \$3 million.
- The company has received an offer of \$2.7 million from a company in Japan interested in buying the plant.
- The present value of the estimated cash flows from continued use of the plant is \$2.6 million.
- The estimated cost of shipping the plant to Japan is \$50,000.

What is the amount of the impairment loss that should be recognised on the plant?

- A \$350,000
- B \$300,000
- C \$400,000
- D \$450,000

**(2 marks)**



## IAS 36 Impairment of asset

A business which comprises a single cash-generating unit has the following assets:

	\$m
Goodwill	3
Patent	5
Property	10
Plant and equipment	15
Net current assets	<u>2</u>
	<u>35</u>

Following an impairment review it is estimated that the value of the patent is \$2 million and the recoverable amount of the business is \$24 million.

At what amount should the property be measured following the impairment review?

- A \$8 million
- B \$10 million
- C \$7 million
- D \$5 million

(2 marks)

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# Thank You!

