IAS 36: Reversal of Impairment - CGU remains unchanged

Extract, IFRS Discussion Group Report on Meeting – September 5, 2013

IAS 36 *Impairment of Assets* requires entities to assess at each reporting date whether there is any indication that a previously recognized impairment loss no longer exists or has decreased. If there is any such indication, the entity should estimate the recoverable amount. This applies both to individual assets other than goodwill and to cash-generating units (referred to as "CGUs"). Paragraph 111 of IAS 36 lists the external and internal indicators that an impairment loss recognized in prior periods may no longer exist or may have decreased.

IAS 36 requires that, if possible, impairment should be assessed for individual assets. If the recoverable amount cannot be determined for the individual asset, the entity determines the carrying amount of the cash-generating unit to which the asset belongs. 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.

The issue for consideration is whether a reversal of impairment must be specific to the original event that gave rise to the impairment, when the composition of the cash-generating unit does not change subsequent to the impairment loss.

Fact Pattern

- An entity has identified one cash-generating unit that consists of various assets. These assets are integral to the operations such that independent cash inflows cannot be determined for the assets within the cash-generating unit.
- Both the costs and revenues of the cash-generating unit are dependent on market prices for commodities. The revenues are sensitive to the market prices for Commodity A as well as to foreign exchange rates. The input costs/expenses are sensitive to the market prices for Commodity B.
- During 20X0, the current and long-term market prices for Commodity B increase due to an unexpected reduction in supply, which reduces the forecasted future cash flows and profitability of the cash-generating unit. There hasn't been a similar increase in the current and/or long-term prices of Commodity A to offset the increase in input costs. Foreign exchange rates are also unchanged.
- At the end of the 20X0 reporting period, due to the adverse change in the business triggered by the increase in the price of Commodity B, the entity identified an indicator of impairment. The entity calculated the recoverable amount of its cash-generating unit and recognized an impairment loss at the end of 20X0.
- From 20X0 to 20X2, the composition of the assets included in the cash-generating unit remains the same such that no new assets were added to the cash-generating unit.

Scenario 1 – The indicator of reversal relates to the same event or condition that gave rise to the original impairment loss.

During 20X2, the current and long-term market price for Commodity B decreased to the prior historical levels before the impairment was recorded in 20X0. This decrease is due to the completion of several large projects which have significantly reduced the global supply issues. As a result, the input costs/expenses have decreased along with a corresponding favourable increase in cash flows and profitability.

Scenario 2 – The indicator of reversal does not relate to the same event or condition that gave rise to the original impairment loss.

During 20X2, the current and long-term market price for Commodity B remains at the same level as 20X0 when the impairment was recognized. However, the current and long-term market price for Commodity A has increased as a result of higher global demand due to changing economic conditions. As a result, revenues have increased along with a corresponding favourable increase in cash flows and profitability.

Is an indicator of reversal present under each scenario?

View A – An indicator of reversal must relate to the same event or condition that gave rise to the impairment loss.

Under this view, an indicator of reversal is present in Scenario 1 only.

View B – An indicator of reversal does not need to relate to the same event or condition that gave rise to the impairment loss.

Under this view, an indicator of reversal is present in Scenario 1 and 2.

The Group's Discussion

Group members supported View B, noting that any indicator of reversal listed in paragraph 111 of IAS 36 would meet the criteria for assessing whether an impairment loss should be reversed. Further, paragraph 114 of IAS 36 is clear that the assessment is based on any factor that would positively affect the asset's recoverable amount, rather than being based on whether the original impairment indicator has changed.

Group members noted that it is difficult to identify a single factor that, in isolation, has caused an impairment loss because often many factors contribute to the decline in the estimate of recoverable amount. Similarly, it is often many factors that trigger a reversal of impairment, and which factor gave rise to the original impairment loss is not relevant.

The Group did not recommend any further action be taken regarding this issue.