IFRS 5 and IAS 36: Impairment Measurement

Extract, IFRS Discussion Group Report on Meeting – December 9, 2014

IAS 36 *Impairment of Assets* contains measurement guidance when assessing impairment of an asset or a cash-generating unit. IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* contain criteria for determining whether an asset can be classified as held for sale.

Issue: When measuring impairment for an asset or a cash-generating unit that is likely to be sold, but has yet to meet the held-for-sale criteria under IFRS 5, does the calculation of the value in use of the asset or cash-generating unit include the expected sale of the asset or cash-generating unit?

View A – The calculation of value in use is based on management's expectations for the asset or cash-generating unit and as such, the measurement of the cash-generating unit should embed the expected sale of the asset or cash-generating unit.

This view looks to guidance in paragraph 30(a) of IAS 36 that indicates an asset's value in use is calculated based on the estimated future cash flows the entity expects to derive from the asset. It also considers guidance in paragraph 21 of IAS 36, which states that "the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible." When the held-for-sale criteria in IFRS 5 are not met, consideration should be given to the uncertainty in the expected cash flows with regards to whether the asset or cash-generating unit will be sold and the timing of such sale.

View B – The value in use should be calculated based on the assumption that the entity will continue to use the asset or cash-generating unit through to the end of its useful life.

This view looks to paragraph 33(a) of IAS 36, which suggests that when calculating the value in use, an entity should include the cash flows expected over the remaining useful life of the asset. This could mean that the use of estimated cash flows assumes the asset or cash-generating unit will be held by the entity throughout its entire life.

This view argues that the discussion in paragraph 21 of IAS 36 is made in reference to IFRS 5 and that it is applicable to the impairment test required immediately before being reclassified to an asset held for sale in accordance with IFRS 5.

The Group's Discussion

Group members supported the view to include the expected sale of the asset or cash-generating unit in its value in use calculation (View A) because the calculations should reflect the future cash flows that management expects to derive from the asset. A probability-weighted cash flow calculation would be appropriate to reflect the length of time until the asset is expected to be disposed. However, in this situation, an entity is encouraged to revisit its conclusion to ensure that the criteria in IFRS 5 are not met.

Source: www.frascanada.ca/ifrs-discussion-group

One Group member noted that after an entity considers the criteria under IFRS 5, an entity should also determine whether there could be a change in the estimated useful life of the asset under IAS 16 *Property, Plant and Equipment*. The asset should then be assessed to determine if there are any indicators of impairment. In particular, paragraph 12(f) of IAS 36 notes that a significant change to the way in which an asset is used or expected to be used (for example, the asset becoming idle or there are plans to dispose of the asset before a previously expected date) is a trigger for testing impairment.

The Group's discussion raises awareness about this item. No further action was recommended to the AcSB.