IAS 36: Goodwill Impairment Test

Extract, IFRS Discussion Group Report on the Meeting – May 30, 2017

IAS 36 *Impairment of Assets* requires that an entity test goodwill for impairment annually by comparing the carrying amount of the cash-generating unit that includes goodwill with the recoverable amount of the unit. While an annual goodwill impairment test is mandatory, IAS 36 provides some relief for the determination of the recoverable amount.

Paragraph 99 of IAS 36 states:

> "The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:
>
> (a) the assets and liabilities making up the unit have not changed significantly since the most recent recoverable amount calculation;
>
> (b) the most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin; and
>
> (c) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote."

Issue 1: What are some factors an entity would consider in determining whether it can use the most recent detailed calculation of the recoverable amount for the goodwill impairment test?

Judgment is required to assess whether the criteria described in paragraph 99 of IAS 36 have all been met, particularly in determining what constitutes a "substantial margin." In considering what constitutes a substantial margin between the recoverable amount and carrying amount of the cash-generating unit, an important factor is understanding the amount by which a change in key assumptions could affect the calculation. If a relatively minor change to one of the key assumptions could eliminate the margin, it is less likely that the criterion in paragraph 99(b) of IAS 36 is met. Also, an entity should consider whether a key assumption is expected to change from year to year.

Issue 2: Assuming all the criteria in paragraph 99 of IAS 36 are met, may an entity use the same recoverable amount calculation for multiple annual reporting periods?

View 2A – An entity may use the same recoverable amount calculation for multiple annual reporting periods provided that the criteria in paragraph 99 of IAS 36 continue to be met.

Proponents of this view note that paragraph 99 of IAS 36 does not state the recoverable amount calculation must be from the most recent preceding period. Rather, it is the most recent recoverable amount calculation made in a preceding period.

The likelihood of an event or a change in circumstance occurring increases over time. However, if the margin between the recoverable amount and the carrying value of the cash-generating unit was so substantial such that the likelihood of goodwill impairment remains remote, then the same conclusion could be reached for multiple periods. In this case, the same recoverable amount calculation may be used an indefinite number of times.

View 2B – An entity may not use the same recoverable amount calculation indefinitely but rather only the calculation from the most recent annual reporting period.

Proponents of this view consider that the intention of paragraph 99 of IAS 36 was to provide relief for the current annual reporting period only, not an indefinite relief from the annual goodwill impairment test. Paragraph BC177 in the Basis for Conclusions on IAS 36 states, in part, the following:

> "The Board concluded that in such circumstances, permitting a detailed calculation of the recoverable amount of a cash-generating unit (group of units) to which goodwill has been allocated to be carried forward from **the preceding period** for use in the current period's impairment test would significantly reduce the costs of applying the impairment test, without compromising its integrity." (emphasis added)

The Group's Discussion

The Group discussed both issues together.

The Group noted that an entity still needs to perform an analysis to assess the likelihood of the current recoverable amount being less than the current carrying amount of the unit when applying paragraph 99 of IAS 36. Entities may find performing the annual goodwill impairment test is less work than conducting a likelihood analysis. One Group member noted that if there are multiple cash-generating units to which goodwill is allocated, the recoverable amount calculation for one unit may exceed its carrying amount by a substantial margin, but not for all units. Since an entity would generally compare the carrying amount of its net assets to its market capitalization based on paragraph 12 of IAS 36, the information to perform the goodwill impairment test is often already available.

Group members' experience suggests that the relief provided by paragraph 99 of IAS 36 is not commonly applied by entities. One Group member acknowledged that the reference to the preceding period is ambiguous and could be interpreted as either being the immediately preceding period or just an earlier period. The facts and circumstances should be assessed because if the cash-generating unit that includes goodwill is clearly not impaired, applying the same recoverable amount calculation for multiple annual reporting periods is less concerning. However, the longer between the most recent recoverable amount calculation and the reporting period in which goodwill is assessed for impairment, the more qualitative analysis needed to justify the use of this relief in paragraph 99 of IAS 36.

This similar relief is also available to an intangible asset with an indefinite useful life based on paragraph 24 of IAS 36. However, one Group member noted that whether this similar relief exists for an intangible asset not yet available for use is not apparent given the wording in paragraph 15 of IAS 36.

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

(For a full understanding of the discussions and views expressed, listen to the audio clip).