DIGITAL CFO SOLUTIONS • IFRS SERIES

ACTIVE STANDARD

INTERNATIONAL FINANCIAL REPORTING STANDARDS

IAS 36

Impairment of Assets

Recoverable amount, cash-generating units, recognition and reversal of impairment losses — updated for the IASB's goodwill and impairment proposals and IFRS 18

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ROADMAP

What We Will Cover

Foundations & Core Principle

Scope, key definitions, indicators of impairment, and when testing is required

Measuring Recoverable Amount

Fair value less costs of disposal, value in use, and the discounting mechanics

Recognition of Impairment Losses

Accounting treatment for assets carried at cost and at revalued amounts

Cash-Generating Units

Identifying CGUs, corporate assets, and allocating an impairment loss

Reversal of Impairment Losses

Indicators, measurement cap, and the goodwill exception

Disclosure Requirements

What every set of financial statements must show

Worked Illustrations

Six worked examples spanning assets, CGUs and restoration provisions

Recent Developments

The IASB's goodwill and impairment proposals, and the impact of IFRS 18

PART I — FOUNDATIONS

Foundations & Core Principle

The objective and scope of IAS 36, the key definitions behind impairment, and the indicators and timing that trigger a test.

FOUNDATIONS

Objective & Scope

IAS 36 prescribes procedures that an entity applies to ensure its assets are carried at no more than their recoverable amount — the point at which an asset is deemed impaired, and how the resulting impairment loss is recognised.

- IAS 36 applies to most non-financial assets, including property, plant and equipment (IAS 16), intangible assets and goodwill (IAS 38, IFRS 3), investment property carried at cost (IAS 40), and right-of-use assets (IFRS 16).
- IAS 36 does NOT apply to: inventories (IAS 2); contract assets and costs to obtain/fulfil a contract (IFRS 15); deferred tax assets (IAS 12); employee benefit assets (IAS 19); financial assets within the scope of IFRS 9; investment property measured at fair value (IAS 40); biological assets measured at fair value less costs to sell (IAS 41); and non-current assets held for sale (IFRS 5).
- These excluded items are covered by recognition and measurement requirements in their own respective Standards, which already build in an impairment-equivalent test.
- An impairment loss is the amount by which the carrying amount of an asset, or a cash-generating unit, exceeds its recoverable amount (IAS 36.6).

FOUNDATIONS

Key Definitions

Four concepts anchor the whole of IAS 36 — the recoverable amount test is applied either to a single asset, or to the smallest group of assets that generates independent cash flows.

Impairment Loss

The amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount (IAS 36.6).

Recoverable Amount

The higher of an asset's (or CGU's) fair value less costs of disposal and its value in use.

Cash-Generating Unit (CGU)

The smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or groups of assets.

Corporate Assets

Group or divisional assets — such as a head office building — that contribute to the cash flows of multiple CGUs, but cannot be allocated to any single CGU on a reasonable basis.

FOUNDATIONS

Indicators of Impairment

At the end of each reporting period, an entity assesses whether there is any indication that an asset may be impaired — drawn from both external and internal sources of information.

Market Value Decline

An asset's market value has declined significantly more than would be expected from the passage of time or normal use.

Adverse Environment Changes

Significant changes with an adverse effect on the entity in the technological, market, economic or legal environment, or a rise in market interest rates affecting the discount rate.

Obsolescence or Damage

Evidence of obsolescence or physical damage to an asset, or adverse changes in the extent or manner an asset is used, including plans to discontinue or restructure.

Worse Economic Performance

Evidence from internal reporting that an asset's economic performance is, or will be, worse than expected — or that the carrying amount of net assets exceeds market capitalisation.

FOUNDATIONS

When Is an Impairment Test Required?

Most assets are tested only when an indicator of impairment is identified — but three categories require a mandatory ANNUAL test regardless of whether any indicator exists.

1 Goodwill Acquired in a Business Combination

Tested for impairment annually, and whenever an indicator of impairment arises, at the level of the CGU (or group of CGUs) to which it is allocated.

2 Indefinite-Life Intangible Assets

Intangible assets not yet amortised because their useful life is assessed as indefinite are tested annually, in addition to whenever an indicator arises.

3 Intangible Assets Not Yet Available for Use

An intangible asset not yet ready for its intended use — such as development costs still in progress — is tested annually until it is brought into use.

4 All Other Assets

Tested for impairment ONLY when an indicator identified from external or internal sources suggests the carrying amount may not be recoverable.

PART II — RECOVERABLE AMOUNT

Measuring Recoverable Amount

The higher of fair value less costs of disposal and value in use — and the assumptions that go into each.

RECOVERABLE AMOUNT

Fair Value Less Costs of Disposal, or Value in Use

The recoverable amount of an asset or CGU is the HIGHER of two measures — an entity need not determine both if either already exceeds the carrying amount.

RECOVERABLE AMOUNT = THE HIGHER OF

Fair Value Less Costs of Disposal

Value in Use

Fair value less costs of disposal is the price obtainable between market participants, less directly attributable disposal costs. Value in use is the present value of future cash flows expected from continuing use and ultimate disposal. If the carrying amount exceeds the recoverable amount, the asset is impaired and a loss is recognised for the difference.

RECOVERABLE AMOUNT

Elements of Value in Use

Estimating value in use combines a cash flow projection with a present-value discounting exercise — four elements determine the result.

1 Cash Flow Projections

Based on reasonable and supportable assumptions, giving greater weight to external evidence, and representing management's best estimate of the economic conditions over the asset's remaining useful life.

2 The Budget Period

Projections are based on the most recent financial budgets or forecasts, covering a maximum period of five years unless a longer period can be justified.

3 Extrapolation Beyond the Budget

Cash flows beyond the budget period are extrapolated using a steady or declining growth rate, unless an increasing rate can be objectively justified — and should not exceed the long-term average growth rate for the products, industries or country.

4 The Discount Rate

A pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset, for which the estimates of future cash flows have not been adjusted.

WORKED ILLUSTRATIONS

Illustration I — Determining Recoverable Amount

FACT PATTERN

A Ltd has a machine whose original cost was $25,000. Accumulated depreciation on the machine is $8,500. A Ltd recently sold another similar machine for $34,000, with selling expenses of $2,300. Management has determined the value in use of the machine as $33,000. Required: determine the recoverable amount of the machine.

SOLUTION

Component	Calculation	Amount ($)
Market value of the machine	—	34,000
Less: direct selling expenses	—	(2,300)
Fair value less costs of disposal	34,000 − 2,300	31,700
Value in use (per management)	—	33,000
Recoverable amount	HIGHER of 31,700 and 33,000	33,000

The recoverable amount is the higher of the two measures — $33,000 — so the value-in-use figure governs in this case. The machine's carrying amount ($25,000 − $8,500 = $16,500) is well below $33,000, so no impairment arises.

PART III — RECOGNITION

Recognition of Impairment Losses

How an impairment loss is recognised depends on whether the asset is carried at cost, or has been revalued under IAS 16 or IAS 38.

RECOGNITION

Asset Carried at Cost (Not Revalued)

Where an asset's carrying amount exceeds its recoverable amount and the asset has NOT been revalued, the impairment loss is recognised immediately in profit or loss.

Carrying Value > Recoverable Value → Impairment Loss Recognised in P&L

ACCOUNT	DEBIT	CREDIT
Dr. Impairment loss (profit or loss)	X	
Cr. Asset (or accumulated impairment)		X

This is the default treatment — it applies to the overwhelming majority of impairment losses, since most assets are carried on the cost model.

RECOGNITION

Revalued Asset — Loss Within the Revaluation Surplus

Where the asset has previously been revalued upward under IAS 16 or IAS 38, an impairment loss is first recognised against any revaluation surplus held for that same asset, taking it through other comprehensive income rather than profit or loss.

Impairment Loss ≤ Revaluation Surplus → Recognised Against the Surplus

ACCOUNT	DEBIT	CREDIT
Dr. Revaluation surplus (OCI)	X	
Cr. Asset		X

This treats the impairment as reversing part of a previously recognised gain — it is treated as a revaluation decrease, consistent with IAS 16.40 and IAS 38.85, and never touches profit or loss for this portion.

Revalued Asset — Loss Exceeding the Revaluation Surplus

Where the impairment loss is LARGER than the available revaluation surplus for that asset, the surplus is exhausted first, and the balance is recognised as an expense in profit or loss.

Impairment Loss > Revaluation Surplus → Excess Recognised in P&L

ACCOUNT	DEBIT	CREDIT
Dr. Revaluation surplus (OCI, up to the balance available)	X	
Dr. Impairment loss (profit or loss, for the excess)	X	
Cr. Asset		X

The split follows a strict order — the surplus is always used first, and only the amount beyond it is charged to profit or loss.

PART IV — CASH-GENERATING UNITS

Cash-Generating Units

When an asset's recoverable amount cannot be estimated individually, the test moves to the smallest group of assets that generates independent cash flows.

CASH-GENERATING UNITS

Identifying a CGU

An asset is tested individually wherever possible — the CGU test is used only when an asset does not generate cash inflows that are largely independent of other assets.

The CGU Test

If it is not possible to estimate the recoverable amount of an individual asset, an entity determines the recoverable amount of the CGU to which the asset belongs.

Allocating Corporate Assets

Corporate assets are allocated to CGUs on a reasonable and consistent basis before the CGU test is performed — or tested at the smallest group of CGUs to which a reasonable allocation can be made.

WORKED ILLUSTRATIONS

Illustration II — A Private Railway

FACT PATTERN

A mining enterprise owns a private railway to support its mining activities. The private railway could be sold only for scrap value, and it does not generate cash inflows from continuing use that are largely independent of the cash inflows from the other assets of the mine.

SOLUTION

It is not possible to estimate the recoverable amount of the private railway in isolation, because its value in use cannot be determined and is probably different from scrap value.

The enterprise therefore estimates the recoverable amount of the cash-generating unit to which the private railway belongs — that is, the mine as a whole.

WORKED ILLUSTRATIONS

Illustration III — Five Bus Routes

FACT PATTERN

A bus company provides services under contract with a municipality that requires a minimum level of service on each of five separate routes. Assets devoted to each route, and the cash flows from each route, can be identified separately. One of the routes operates at a significant loss.

SOLUTION

Because the enterprise does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets is the cash inflows generated by the five routes together.

The cash-generating unit for each route is therefore the bus company as a whole — the loss-making route cannot be tested in isolation.

CASH-GENERATING UNITS

Testing a CGU for Impairment

1 Check Regularly for Indicators

Assess on a regular basis whether the cash-generating units within the business show any indication of impairment.

2 List Carrying Amounts

List the carrying amounts of all the assets and liabilities making up the cash-generating unit, including any allocated goodwill and corporate assets.

3 Compare to Recoverable Amount

Compare the total carrying amount to the recoverable amount of the cash-generating unit as a whole.

4 Recognise Impairment If CA Exceeds RA

If the carrying amount (CA) exceeds the recoverable amount (RA), the CGU is impaired and the loss is allocated across the unit's assets.

WORKED ILLUSTRATIONS

Illustration IV — A Mine with a Restoration Obligation

FACT PATTERN

A company operates a mine where legislation requires the owner to restore the site on completion of mining operations, including replacing the overburden removed before operations began. A restoration provision was recognised as the overburden was removed, capitalised as part of the cost of the mine, and is being depreciated over the mine's useful life. The carrying amount of the restoration provision is $5,000,000 — equal to the present value of the restoration costs. The mine (the CGU as a whole) has a carrying amount of $10,000,000. Offers to buy the mine, including the buyer assuming the restoration obligation, are around $8,000,000, with negligible disposal costs. Value in use of the mine, excluding restoration costs, is approximately $12,000,000.

SOLUTION

Required: determine the recoverable amount and carrying amount of the CGU for impairment testing — solution on the next slide.

Illustration IV — A Mine with a Restoration Obligation (continued)

FACT PATTERN

Continuing the mine example: because the restoration obligation has already been provided for and factored into the sale offers received, both the fair value measure and the value-in-use measure must be adjusted onto a consistent, restoration-inclusive basis before comparing to carrying amount.

SOLUTION

Component	Basis	Amount ($)
Fair value less costs of disposal	Offers received, restoration-inclusive	8,000,000
Value in use (restoration-adjusted)	$12,000,000 – $5,000,000 restoration	7,000,000
Recoverable amount of the CGU	HIGHER of 8,000,000 and 7,000,000	8,000,000
Carrying amount of the CGU	$10,000,000 mine – $5,000,000 provision	5,000,000

Since the carrying amount of the CGU ($5,000,000) is BELOW its recoverable amount ($8,000,000), no impairment loss arises — both sides of the comparison must net off the restoration provision consistently.

CASH-GENERATING UNITS

Recoverable Amount of a CGU

The recoverable amount of a CGU is measured on exactly the same higher-of basis as an individual asset, applied to the unit as a whole.

RECOVERABLE AMOUNT OF A CGU = THE HIGHER OF

Fair Value Less Costs of Disposal of the CGU

Value in Use of the CGU

Fair value less costs of disposal is the price obtainable for the unit as a whole between knowledgeable, willing parties; value in use is the present value of the future cash flows expected from the CGU as a whole. The carrying amount of a CGU is built up consistently — it includes only the assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the CGU.

Allocating an Impairment Loss — Goodwill First

When a CGU is impaired and it is not practicable to estimate the recoverable amount of each individual asset within it, the loss is allocated in a strict order.

1 Reduce Goodwill First

The carrying amount of any goodwill allocated to the cash-generating unit is reduced first, before any other asset is touched.

2 Allocate the Balance Pro Rata

Any remaining impairment loss, after goodwill is exhausted, is allocated to the other assets of the unit on a pro-rata basis, based on the carrying amount of each asset.

3 Respect the Individual Floor

No individual asset is reduced below the highest of its fair value less costs of disposal, its value in use (if determinable), and zero.

Allocating an Impairment Loss — Individually Determinable Assets

Where it IS practicable to estimate the recoverable amount of an individual asset within the CGU, an additional check applies after the pro-rata allocation.

1 Allocate as Before

Goodwill is reduced first, then the balance of the loss is allocated to the remaining assets on a pro-rata basis, exactly as in the general case.

2 Check Against Recoverable Amount

For any asset whose recoverable amount CAN be estimated individually, check whether that recoverable amount is more than the carrying amount produced by the pro-rata allocation.

3 Reallocate the Excess If Needed

If the pro-rata allocation would take that asset below its own recoverable amount, the excess impairment loss is reallocated to the remaining assets of the unit on a pro-rata basis.

PART V — REVERSAL

Reversal of Impairment Losses

Impairment losses can be reversed when circumstances change — except for one important asset that can never be written back up.

Indicators & Recognition of a Reversal

At the end of each reporting period, an entity assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased — using indicators that mirror those for impairment, but in reverse.

- External indicators include a significant increase in the asset's market value, or favourable changes in the technological, market, economic or legal environment, or in market interest rates.
- Internal indicators include favourable changes in the extent or manner an asset is used, or evidence that the asset's economic performance is, or will be, better than expected.
- A reversal of an impairment loss for an individual asset (other than goodwill) is recognised immediately in PROFIT OR LOSS.
- For a revalued asset, a reversal is treated as a revaluation increase under IAS 16 or IAS 38 — recognised in OTHER COMPREHENSIVE INCOME, to the extent it restores the revaluation surplus, with only genuine excess above the original cost model carrying amount hitting profit or loss where applicable.
- After a reversal, the depreciation (amortisation) charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

REVERSAL

The Measurement Cap & the Goodwill Exception

A reversal is not unlimited — it is capped by reference to what the asset's carrying amount would have been had no impairment ever been recognised.

CAP ON A REVERSAL FOR AN INDIVIDUAL ASSET

Increased carrying amount cannot exceed the no-impairment carrying amount

Any amount above that hypothetical carrying amount is NOT recognised

The cap is the carrying amount, net of depreciation or amortisation, that would have applied had no impairment loss ever been recognised in prior periods. GOODWILL EXCEPTION: an impairment loss recognised for goodwill is NEVER reversed — any apparent recovery is treated as internally generated goodwill, which IAS 38 prohibits from being recognised as an asset.

PART VI — DISCLOSURE

Disclosure Requirements

What the primary statements and notes must show for impairment losses and reversals — with additional detail required for goodwill and indefinite-life intangibles.

DISCLOSURE

General Disclosure Requirements

1 Amounts by Class of Asset

The amount of impairment losses, and reversals of impairment losses, recognised in profit or loss and in other comprehensive income during the period, by class of asset and by reportable segment.

2 Material Impairment — Events & Circumstances

For each material impairment loss or reversal: the events and circumstances that led to it, and the amount recognised.

3 Nature of the Asset or CGU

A description of the asset (or the CGU, including how it was identified, if the change since the prior estimate is significant) affected by the loss or reversal.

4 Basis for Recoverable Amount

Whether recoverable amount is fair value less costs of disposal or value in use, and the basis used to determine fair value or the discount rate applied to value-in-use estimates.

DISCLOSURE

Goodwill & Indefinite-Life Intangible Assets

Because these categories are tested annually regardless of indicators, IAS 36 requires more granular disclosure of the estimates underlying each CGU's recoverable amount.

1 Carrying Amount by CGU

The carrying amount of goodwill, and of indefinite-life intangible assets, allocated to each CGU (or group of CGUs) that is significant in comparison with the entity's total carrying amount of those items.

2 Key Assumptions

The key assumptions on which management based its cash flow projections — typically growth rates, margins, and the discount rate — and management's approach to determining the values assigned to each.

3 Sensitivity Disclosure

Where a reasonably possible change in a key assumption would cause the CGU's carrying amount to exceed its recoverable amount, the amount of headroom and the sensitivity of the estimate to that assumption.

PART VII — RECENT DEVELOPMENTS

Recent Developments

The IASB's ongoing project on goodwill and impairment disclosures, and the impact of IFRS 18 on how impairment losses are presented.

RECENT DEVELOPMENTS

The IASB’s Goodwill & Impairment Project

The IASB’s March 2024 Exposure Draft is still under redeliberation as of mid-2026, with a project-direction decision expected later this year — nothing has yet been finalised.

Impairment-Only Model Retained

The IASB has reaffirmed it will NOT reintroduce amortisation of goodwill — the impairment-only approach, and the requirement to test annually, are proposed to remain.

Simplified Value-in-Use Calculation

Proposals include removing the current restriction on including cash flows from a future restructuring or asset enhancement in value-in-use estimates, to reduce calculation complexity.

Clearer Goodwill Allocation

The Exposure Draft proposes clarified guidance on how an entity allocates goodwill to cash-generating units following a business combination.

New Performance & Synergy Disclosures

The project’s core: disclosing post-acquisition performance and expected synergies for a defined subset of business combinations, addressing concerns that impairment arrives ‘too little, too late’.

Impact of IFRS 18 on Impairment Presentation

IFRS 18 Presentation and Disclosure in Financial Statements replaces IAS 1 and is effective for annual periods beginning on or after 1 January 2027, with early application permitted.

- IFRS 18 introduces defined categories — operating, investing, financing — and required subtotals within the statement of profit or loss.
- Impairment losses and reversals on assets used in the entity's main business activities are classified within the OPERATING category by default, unless they relate to an investment accounted for using the equity method, or to a financing or investing activity.
- Where an entity discloses a management-defined performance measure that excludes or adjusts for impairment charges, IFRS 18 requires a reconciliation to the most directly comparable IFRS-defined subtotal, together with an explanation of why the adjusted measure provides useful information.
- IFRS 18 does NOT change the recognition, measurement, allocation or reversal requirements of IAS 36 — its impact is confined to where impairment-related line items are presented, and how non-GAAP impairment-adjusted measures must be reconciled.

SUMMARY

Key Takeaways

Recoverable Amount Is the Higher of Two Measures

Fair value less costs of disposal and value in use — an entity need only determine one if it already exceeds carrying amount.

Goodwill and Indefinite-Life Assets Are Tested Annually

Every other asset is tested only when an indicator of impairment is identified.

Recognition Follows the Revaluation History

Losses on cost-model assets hit profit or loss immediately; losses on revalued assets absorb the surplus first.

CGUs Fill the Gap Individual Assets Can’t

Used only when an asset’s recoverable amount cannot be estimated on its own — goodwill is always reduced first when allocating a CGU loss.

Goodwill Impairment Is Never Reversed

Every other asset can be written back up, capped at what its carrying amount would have been with no impairment at all.

The Impairment Test Itself Is Not Changing

The IASB’s active project targets disclosure, not the impairment-only model; IFRS 18 only changes where the numbers are presented.

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A Career Built on Making IFRS Understandable

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B D Chatterjee is a Chartered Accountant and financial thought leader with over 35 years of global experience spanning corporate finance, accounting standards, financial reporting, business valuation and financial due diligence. As a seasoned CFO, he has led finance functions across major corporations and now heads Digital CFO Solutions, a platform delivering institutional-grade IFRS, US GAAP and valuation workbooks alongside fractional CFO services.

✓ **Published author of the Pocketbook of IFRS series**

Guided thousands through IFRS, US GAAP & valuation transitions

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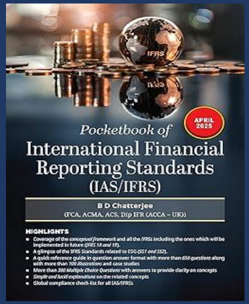
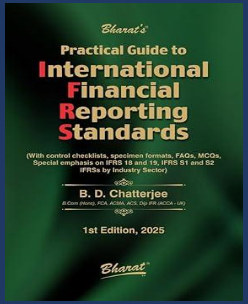
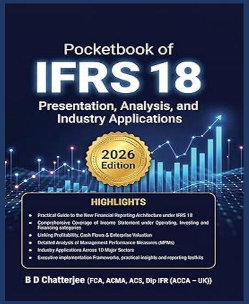


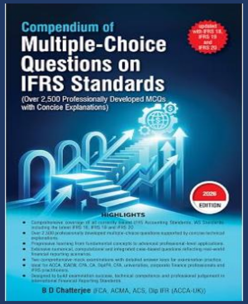
Pocketbook of International Financial Reporting Standards (IAS/IFRS)



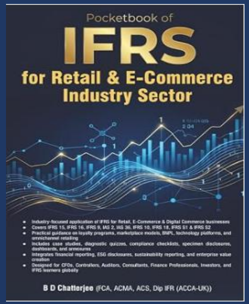
Practical Guide to International Financial Reporting Standards



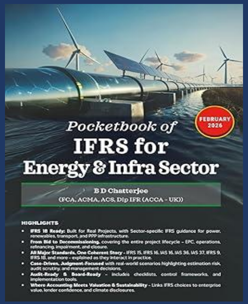
Pocketbook of IFRS 18 — Presentation, Analysis & Industry Applications



Compendium of Multiple-Choice Questions on IFRS Standards



Pocketbook of IFRS for Retail & E-Commerce Industry Sector



Pocketbook of IFRS for Energy & Infra Sector

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