

FRS 102 IMPAIRMENT OF ASSETS

UK GAAP FACTSHEET

Published 7 March 2018
Last updated 3 January 2023

FRS 102 Impairment of Assets

This factsheet is a summary of the basic principles of accounting for impairment of certain non-financial assets under FRS 102 Section 27, including practical tips to aid the theory's application.

This factsheet does not reflect the Periodic Review 2024 amendments which are mostly effective from 1 January 2026.

Target audience

This factsheet is aimed at qualified accountants who are less familiar with FRS 102 or have not recently dealt with FRS 102 in practice and are looking to refresh their knowledge.

Key regulations for this factsheet

This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

Section 1

Overview

FRS 102's accounting requirements in respect of impairment of assets (including inventories but excluding certain financial and other assets – see section 4) are contained primarily in Section 27.

There is a long-established general principle that assets must be carried in the accounts at no more than their recoverable amount. However, careful consideration needs to be given to the detail of relevant requirements and how they are applied in practice. This factsheet sets out the current requirements under FRS 102 for the recognition, measurement, presentation and disclosure of impairment of assets.

Applying Section 27 of FRS 102 often requires a high degree of judgement, which can be more challenging during periods of increased economic uncertainty in so far as it impacts on the key assumptions underlying the recoverable amount.

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Section 2

Links to regulations

Using the links and margin notes in this document

The margin notes in this factsheet identify relevant sections of standards and other regulations – these sections cannot be considered in isolation when applying them in practice.

You might find it useful to download, or print out, relevant section(s) of the standard(s) so that you can refer to them when using this document.

Make sure that you use the right version of the regulations or standards

Standards and regulations are often updated and amended, and may have transitional provisions. It is important to use the right version, and to make sure that it applies to the relevant time period. The standards below are linked to the faculty's standards tracker which shows when standards were amended, and when amendments come into effect. Links are then provided to the version of the standard relevant to specific time periods.

Regulations and guidance

[FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*](#)

[FRC's Thematic Review: Discount rates](#)

Section 3

Overview of principles

Underlying principle and structure of FRS 102 Section 27

Section 27 of FRS 102 sets out the general principle that assets must not be carried in the balance sheet at more than their recoverable amount. Section 27 deals with the impairment of inventories separately from the impairment of other assets within its scope (see section 4). This reflects the fact that the recoverable amount of inventories is determined differently from the way it is determined for other assets.

FRS 102.27.1

Impairment of inventories

Inventory must be tested for impairment at each reporting date.

FRS 102.27.2

Inventory is impaired when selling price less costs to complete and sell is lower than carrying value. Impairment losses must be recognised immediately in profit or loss.

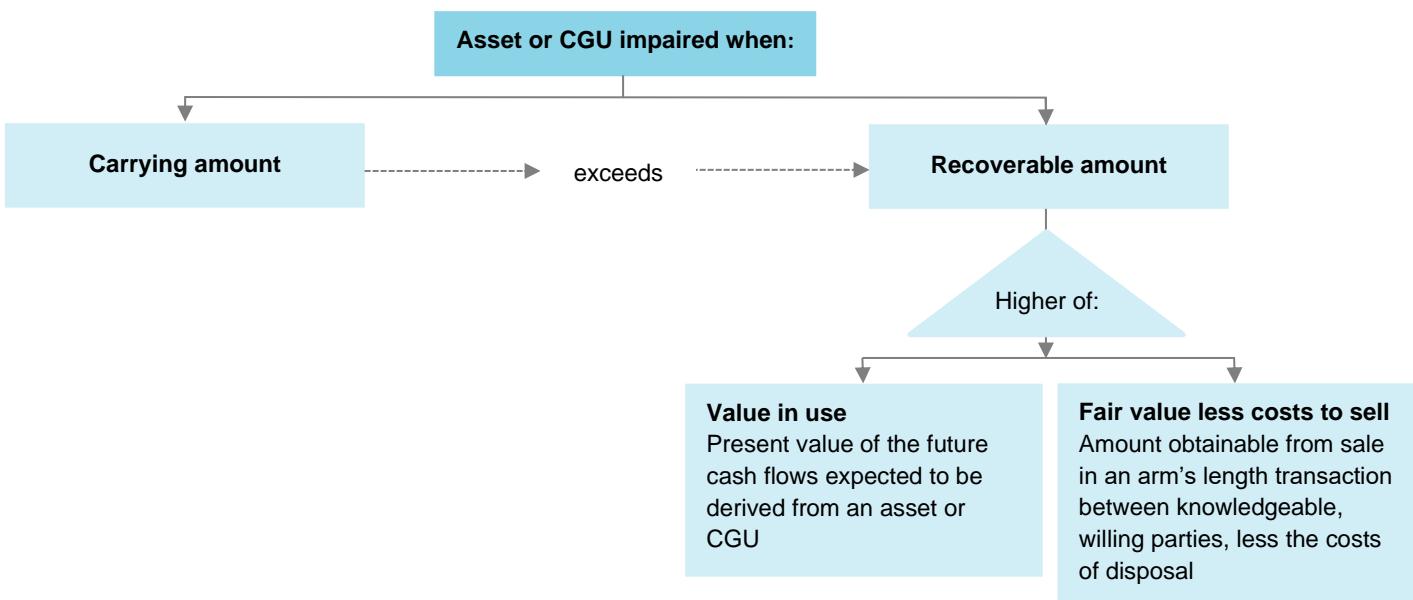
The detailed requirements in respect of the impairment of inventories are set out in section 5 of this factsheet.

Impairment of other assets within scope

In this factsheet, reference to 'other assets' means all assets within the scope of FRS 102 Section 27 other than inventories.

FRS 102 Section 27 requires an assessment at each reporting date of whether there is any indication that an asset within its scope may be impaired. It is only when there is such an indication that the entity is required to estimate the asset's recoverable amount.

FRS 102.27.7



Impairment losses are recognised in profit or loss unless recognised in other comprehensive income against any revaluation surplus related to the asset.

Explanations of each stage of the impairment accounting process for assets other than inventories are set out in sections 6 to 12 of this factsheet.

FRS 102.27.6

Cash-generating units

If it is not possible to estimate the recoverable amount of an individual asset, an entity applies the requirements in respect of impairment at the level of the cash-generating unit (CGU) to which the asset belongs. There are particular considerations when applying the requirements of FRS 102 Section 27 to CGUs, so these are set out separately in sections 6 and 10 of this factsheet. In particular, section 6 considers how to identify CGUs and section 10 explains that any impairment loss must be allocated to the assets in the CGU in a specific order:

FRS 102.27.8

- i) first against any goodwill allocated to the CGU; and
- ii) then against the other assets of the CGU on a pro rata basis.

Section 4

Scope of FRS 102 Section 27

Scope exclusions

In general, FRS 102 Section 27 applies in accounting for the impairment of all assets.

FRS 102.27.1

However, there are some specific exclusions for assets which are covered in other sections of FRS 102:

- a) assets arising from construction contracts (covered in FRS 102 Section 23 *Revenue*);
- b) deferred tax assets (FRS 102 Section 29 *Income Tax*);
- c) assets arising from employee benefits (FRS 102 Section 28 *Employee Benefits*);
- d) financial assets within the scope of FRS 102 Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instruments Issues*;
- e) investment property measured at fair value (FRS 102 Section 16 *Investment Property*);
- f) biological assets measured at fair value less estimated costs to sell (FRS 102 Section 34 *Specialised Activities*); and
- g) deferred acquisition costs and intangible assets arising from contracts within the scope of FRS 103 *Insurance Contracts*.

The effect of these scope exclusions is that, although Section 27 addresses the impairment of both fixed and current assets, in practice the only current assets to which the section is likely to apply are inventories.

Investments in subsidiaries, associates and joint ventures are within the scope of Section 27 to the extent that they are measured using the cost model under the accounting policy election afforded by FRS 102 Sections 9 *Consolidated and Separate Financial Statements*, 14 *Investments in Associates* and 15 *Investments in Joint Ventures*. When such investments are carried at fair value the concept of impairment is not relevant.

Investments in associates and joint ventures accounted for using the equity method are tested for impairment in accordance with Section 27 as a single asset.

FRS 102.14.8 (d)

Section 5

Inventories

The requirement to impair inventories

The requirements in respect of the impairment of inventories are relatively brief. Entities must assess at each reporting date whether any inventories are impaired. FRS 102 Section 13 *Inventories* indicates that impairment may arise due to damage, obsolescence or declining selling prices.

FRS 102.13.19

The assessment is made by comparing the carrying amount of inventories with their selling price less costs to complete and sell. When selling price less costs to complete and sell is lower than carrying value, the inventory is impaired and the carrying amount must be reduced to that lower amount.

FRS 102.27.2

Definition of selling price less costs to complete and sell

'Selling price less costs to complete and sell' is not a defined term in FRS 102 and Section 27 does not provide any explanations or guidance as to how to determine the relevant amount.

Entities will need to use the most reliable evidence available to make the assessment. This includes evidence from the post-balance sheet period, to the extent it provides evidence of conditions that existed at the reporting date.

FRS 102.32.5 (b)

Practical tip: estimating selling price less costs to complete and sell

Although the term selling price less costs to complete and sell may be unfamiliar, its meaning is broadly similar to the potentially more familiar term 'net realisable value'.

In assessing selling price entities must consider the purpose of the inventory; for example, if inventory has been produced to fulfil a particular sales contract, then it is only the sales price stipulated in that contract that is relevant for the impairment assessment.

Costs to complete and sell would include direct and incremental costs. More judgement will be required to conclude whether it is appropriate to include an allocation of overheads in costs to complete and sell.

Practical tip: raw materials

When considering raw materials and other parts used in finished goods, even if current market price is below cost, no impairment is required if the related finished goods can be sold above cost. Conversely, when finished goods are impaired, work in progress and raw materials must be reviewed to determine whether they too are impaired.

Level of aggregation of the assessment

The assessment as to whether inventory is impaired is made for each item of inventory separately. However, if it is impracticable to determine the selling price less costs to complete and sell for inventories on an item by item basis, then the standard permits the assessment to be made for a group of items.

FRS 102.27.3

An entity does not have complete freedom as to how it groups inventories for these purposes. Items of inventory grouped together must:

- relate to the same product line;
- have similar purposes or end uses; and
- be produced and marketed in the same geographical area.

A grouping of all finished goods together, for example, would not be acceptable unless they all met the criteria above.

Presentation of the debit

Section 27 is clear that the reduction in carrying value of inventory represents an impairment loss and must be recognised immediately in profit or loss. The specific line item

FRS 102.27.2

must be disclosed (see section 13 of this factsheet), but generally this will be in cost of goods sold.

Reversal of impairment

At each reporting date an entity must make a new assessment of selling price less costs to complete and sell and consider whether any previous impairment needs to be reversed. A reversal of impairment is required when:

- the circumstances that previously caused the impairment no longer exist; or
- there is clear evidence of an increase in selling price less costs to complete and sell because of changed economic circumstances.

FRS 102 27.4

A reversal must be recognised to the extent necessary to ensure that the new carrying amount is the lower of cost and the revised selling price less costs to complete and sell.

The amount of the reversal is therefore limited to the amount of the original impairment ie, the new carrying value cannot exceed original cost.

Practical tip: where does the credit go?

Although not stated explicitly in the standard, generally accepted practice would be to recognise the credit from the reversal of impairment in the same line in the profit and loss account as the impairment was recognised. Generally, this will be in cost of goods sold. The line item in which the reversal is included must be disclosed (see section 13 of this factsheet).

Section 6

Cash-generating units

Relevance of CGUs

It may not always be possible to estimate recoverable amount for a single asset. While fair value less costs to sell will generally be determinable, measuring value in use requires cash flows to be forecast and individual assets do not always generate cash flows by themselves.

FRS 102 27.8

In such cases an entity has to estimate the recoverable amount of the CGU to which the asset belongs.

Practical tip: comparing like with like

When estimating recoverable amount for a CGU, care must be taken to ensure that the cash flows used in any value in use calculation are consistent with the amounts used to determine the carrying amount. For example, if cash flows from working capital movements are included in the value in use calculations, then inventories, debtor and creditor balances must be included in the carrying amount of the CGU.

Identifying CGUs

An asset's CGU is the smallest identifiable group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

FRS 102 27.8

Practical tip: identifying CGUs

The standard is clear that in identifying CGUs the focus is on cash inflows rather than cash outflows. Income streams are likely to follow the way in which management monitors and makes decisions about the business. Unique intangible assets such as brands are often used to identify CGUs, as are major products and services.

Practical tip: how many CGUs?

There is no 'right' number of CGUs. How many an individual entity will have will depend on the nature of its business and how its operations are structured. While there will always be an element of judgement involved when it comes to identifying CGUs, it is important to remember that if an operation's income stream is largely independent of the reporting entity's other income streams, then it is likely to be a separate CGU.

Practical tip: disposals

When an asset is to be disposed of, its income stream – though not necessarily its expenses – will be independent of the income stream of other assets. Therefore, the asset must be assessed for impairment in its own right, rather than as part of a CGU.

Section 7

Other assets – when to perform an impairment test

Frequency of impairment testing for assets other than inventories

FRS 102 Section 27 requires an assessment at each reporting date of whether there is any indication that an asset within its scope may be impaired. Unlike inventories (which must be tested for impairment at each reporting date), it is only when there is such an indication that the entity is required to estimate the asset's recoverable amount.

FRS 102.27.7

In this section, references to an 'asset' should be read as references also to a CGU.

Indicators of impairment

Section 27 gives the following sources of information that an entity must consider, as a minimum, when assessing whether there is any indication that an asset may be impaired:

FRS 102.27.9

External factors

- A significant decline in market value of an asset during the period.
- A significant adverse change in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- An increase in market interest rates in the period, leading to a material decline in an asset's value in use or fair value less costs to sell.
- An excess of book value over estimated fair value for the entity as a whole.
- An aggregate carrying value of all CGUs in excess of market capitalisation.
- An issue of shares at below 'net asset' price.

Practical tip: relevance of indications of impairment

The above indications trigger an impairment review only when they are relevant to the measurement of the particular assets. For example, changes in short-term interest rates might not affect the recoverable amount of long-term assets. However, care should be taken when making this assessment if changes in short-term interest rates are part of broader economic uncertainty or change. For example, an increase in short-term interest rates as part of a central bank's monetary policy response to rising inflation may be set against an economic climate of a possible recession. An entity's inability to pass inflationary increases onto customers, or a decrease in forecast sales volume as a result of recessionary pressure, may affect the forecast value in use cash flow of a CGU/asset.

Practical tip: the climate emergency

The climate emergency may give rise to indications that an asset or CGU is impaired as it may result in an entity concluding that there is a significant adverse change 'in the technological, market, economic or legal environment' in which it operates.

For example, a decline in demand for carbon-intensive products could indicate that a manufacturing plant may be impaired, requiring the asset to be tested for impairment. An impairment test could also be triggered if, for example, the introduction of legislation designed to reduce emissions results in increased manufacturing costs.

Practical tip: impact of economic uncertainty

At the time of writing (December 2022), UK businesses have been adversely impacted by a number of different factors. In the current environment, indications of impairment could potentially arise from, *inter alia*:

- increases in interest rates;
- changes in selling prices or costs arising from movements in exchange rates;
- political instability; or
- economic uncertainties such as those related to the ongoing effects of the UK's exit from the EU, the Covid-19 pandemic, the war in Ukraine and the cost of living crisis.

Internal factors

- Evidence of physical damage or obsolescence.
- A significant adverse change in the extent or manner of use of an asset (eg, plans to restructure or discontinue operations, dispose of an asset or reassess its useful life).
- Evidence that the economic performance of an asset (the related operating results and cash flows) is or will be worse than expected.
- A current period or forecast loss for a CGU.

Practical tip: relevance of impairment indicator

The above indicators trigger an impairment review only when they are relevant to the measurement of the particular assets. For example, changes in short-term interest rates might not affect the recoverable amount of long-term assets.

Practical tip: cohesiveness of annual report and accounts

Although financial statements are a historical document, reflecting circumstances that exist up to and including the reporting date, the annual report is likely to contain more current information in the 'front-half'. The inclusion of references to circumstances such as ongoing uncertainties or challenging economic conditions in narrative reports may raise expectations that impairment reviews have taken place at the reporting date and that related disclosures will be found in the financial statements.

Entities must take care to consider the cohesiveness of the annual report and accounts as a whole.

When an indicator of impairment is identified, even when there is no resulting impairment loss, it is appropriate to review the useful lives, depreciation or amortisation method and residual values for fixed assets affected, as these may have changed.

FRS 102.27.10

Section 8

Other assets – performing an impairment test

The basic principle

An impairment test involves comparing an asset's carrying amount in the balance sheet with its recoverable amount.

FRS 102.27.1, 21

In this section, references to an 'asset' should be read as references also to a CGU.

Determining an asset's recoverable amount

Recoverable amount is the higher of fair value less costs to sell and value in use. For many assets used within the business, the value in use is likely to be higher than the fair value less costs to sell. For example, the fair value less costs to sell of a motor vehicle might be lower than its carrying amount, but if it can be used profitably in the business over its useful economic life then it is unlikely to be impaired.

FRS 102.27.11-12

When assessing recoverable amount, it is not always necessary to determine both fair value less costs to sell and value in use. This is because if one of these amounts is higher than the carrying amount in the balance sheet, then there is no impairment and there is no need to estimate the other amount.

When there is no reason to believe that value in use materially exceeds fair value less costs to sell, the standard permits an entity to use fair value less costs to sell as the recoverable amount. This assumption is likely to be valid for, say, an asset held for disposal.

FRS 102.27.13

Calculating fair value less costs to sell

Fair value less costs to sell is defined as the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

FRS 102.27.14

The best evidence of fair value less costs to sell is a price in a binding arm's length sale agreement or a market price in an active market.

FRS 102 Appendix I: Glossary

An active market is defined in the glossary to FRS 102 and is one in which the items traded are homogeneous, willing buyers and sellers can normally be found at any time and prices are available to the public. Very few assets for which impairment testing is relevant are traded in an active market.

FRS 102.27.14

If there is neither an active market for the asset nor a binding sale agreement, then fair value less costs to sell must be based on the best information available. This could include, for example, recent transactions for similar assets in the same industry, or cash flow projections of receipts and expenditure. Whatever method is used, however, the assumptions applied must be consistent with those that a third party would make. This means that they might include expectations of future changes – in use, for example – that would not be permitted under the restrictions imposed on value in use calculations (see below).

The standard makes it clear that an entity must take into account any restrictions imposed over the asset. In other words, if restrictions over use would also apply to any potential purchaser, then the amount obtainable from sale of the asset may be lower than for that of an asset that is not subject to any restrictions.

FRS 102.27.14A

Practical tip: what costs of disposal should be included?

Other than clarifying that costs to sell include the cost of obtaining relaxation of any restriction imposed on the asset, when necessary to enable the asset to be sold, the standard does not provide any guidance on what costs of disposal should be included. However, it is generally accepted that only direct and incremental costs – for example legal costs, transaction taxes and costs of moving the asset – should be included. Reorganisation expenses and employee termination benefits following a disposal, for example, are generally not considered direct incremental costs.

Calculating value in use

Value in use is the present value of the future cash flows expected to be derived from the asset. The calculation involves two steps:

- estimating future cash inflows and outflows from the use and ultimate disposal of the asset; and
- applying an appropriate discount rate to those cash flows.

FRS 102.27.15

Cash flows – considerations

- Cash flows must reflect expectations about possible variations in amount or timing of the cash flows.
- Cash outflows must include those necessarily incurred to generate the cash inflows and that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset. Cash outflows must therefore include those required to maintain the asset's current standard of performance, for example maintenance expenses and the cost of replacing components.
- Cash flows must not include financing or income tax cash flows.
- Recent budgets or forecasts may be used to estimate cash flows and extrapolations may be used for projections beyond the period covered by the budgets or forecasts. In making such extrapolations, an entity must assume a steady or declining growth rate, unless an increasing rate can be justified.
- Expected cash flows must be based on the asset's current condition and must not reflect future restructuring to which the entity is not yet committed or enhancements to the asset's performance.

FRS 102.27.17-19

Practical tip: cash flows relating to future restructurings and improvements

As noted above, cash inflows or outflows that are expected to arise from future restructurings or from improving an asset's performance may not be included when calculating value in use. The same consideration does not apply when determining an asset or CGU's fair value less costs of disposal when the assumptions supporting the valuation must be similar to those a market participant would make. For example, in determining fair value it might be reasonable to expect that a hypothetical purchaser would implement appropriate restructuring or capital expenditure plans and factor this into their offer price.

Practical tip: post-acquisition restructuring

The issue noted above in relation to uncommitted future restructurings and improvements is particularly relevant for a business that has been acquired during the reporting period. All else being equal, the value in use of a newly acquired business would be less than the price paid for the business to the extent that the price includes the net benefits of a future restructuring to which the entity is not yet committed.

However, this does not necessarily mean that an impairment loss will need to be immediately recognised as the recoverable amount is measured as the **higher** of value in use and fair value less costs of disposal. Subject to possible changes of value between the acquisition date and the reporting date, the latter may be similar to the arm's length price that the entity paid during the period to acquire the business.

Practical tip: cash flow forecasts for impairment testing

As a result of these requirements, it may be necessary to prepare additional cash flow forecasts specially for the purposes of the value in use calculation, in order to exclude any income or costs arising from, for example, planned enhancements to the asset's performance included in recent budgets or forecasts.

Practical tip: factoring in climate change to a value in use calculation

When preparing forecasts, it is important to review the validity of the assumptions being used to ensure that they reflect current circumstances. The physical effects of climate change, as well as its related effects on regulation, technological developments and consumer preferences, could impact on business models across all industries. These factors may result in changes to management's estimates of the entity's projected cash flows or the level of risk associated with achieving those projections, and so should form part of the entity's value in use assessment.

Particular aspects that might need incorporating include:

- expected changes in consumer behaviour;
- expected government action; and/or
- modifying expected rates of growth when extrapolating cash flow projections beyond the period covered by budgets/forecasts.

Even when the impact of climate change is not immediately apparent, a business still needs to assess its potential impact more broadly when considering, for example, future demand for its products, disruption to supply chains and increased costs.

Discount rate – considerations

- The discount rate must reflect the time value of money, represented by the current market risk-free rate.
- The risk-free rate must then be adjusted to reflect the uncertainty inherent in the cash flows and for other factors such as the illiquidity of the asset's cash flows.
- The discount rate must be a pre-tax rate.
- The discount rate used must not reflect risks for which the underlying cash flows have already been adjusted.

FRS 102.27.20

Practical tip: determining the discount rate – avoiding double-counting

Determining an appropriate asset-specific discount rate is generally not easy. As a starting point an entity might use its incremental borrowing rate or weighted average cost of capital (WACC), adjusted for tax and any atypical features of the entity's capital structure. Specialist advice may well be required.

Practical tip: calculating pre-tax discount rate

One methodology that is sometimes used for calculating a pre-tax discount rate is by deriving it from a post-tax impairment calculation. Firstly, post-tax cash flows would be discounted using a post-tax discount rate. Then the goal-seek function (which is available in Excel or other spreadsheet software) can be used to ascertain what discount rate would give rise to the same value in use based on pre-tax cash flows.

Practical tip: caution needed over the use of post-tax discount rates and cashflows

In practice, some entities perform value in use calculations using post-tax discount rates and cash flows. However, this is an area often challenged by accounting regulators.

Although theoretically the use of post-tax discount rates and cash flows will provide the same outcome as using pre-tax figures, the need to consider tax in the cash flows can make this complicated to achieve in practice. In particular, it is important to give proper consideration to the amounts and timing of tax cash flows in such a calculation.

Practical tip: inflation

Inflation is on the rise in many economies after a long period of relatively low inflation. Inflation impacts the time value of money by decreasing the value of money over time and is an input into many discount rates. When inflation is negligible, it is not necessarily an input that requires significant judgement or estimation. However, as it increases more care may need to be taken when determining the appropriate input.

When determining the discount rate, the most up-to-date information relating to inflation must be taken into account. The assumptions used must reflect conditions as they existed at the balance sheet date.

Practical tip: foreign currencies

Although not specifically addressed in FRS 102, it would be logical to estimate cash flows in the currency in which they will be generated and then discount them using a rate appropriate for that currency. It would then generally be appropriate to translate the present value using the spot exchange rate at the date of the value in use calculation, unless that rate was judged to be atypical.

Practical tip: FRC thematic review

Discounted cash flows – and discount rates themselves – are commonly used when undertaking impairment reviews. Determining an appropriate discount rate can be complex, making it a potential source of significant estimation uncertainty.

The FRC's recent thematic review on [Discount Rates](#) is written in the context of IFRS but may nonetheless be helpful to UK GAAP preparers as it provides an overview of how risk should be incorporated into discount rates and highlights common errors made in calculations, such as not reflecting the risk variability in either the cash flows or the discount rate or doing the opposite by double counting the risk.

Inflation is also identified as an area worthy of attention. While the FRC have not routinely seen inflation as a key source of estimation uncertainty in the past, they expect it to have a bigger impact on companies' financial reporting during periods of rising inflation.

A general lack of understanding around the requirement to use a pre-tax discount rate in value-in-use calculations and the challenges in converting a post-tax rate to a pre-tax rate are also highlighted in the report.

Central assets

Certain assets do not generate cash flows independently but nevertheless contribute to the cash-generating activities of the entity and may be used by a number of CGUs, for example headquarters buildings. Such shared assets (sometimes referred to as 'corporate' or 'central' assets) are not addressed specifically by FRS 102 Section 27. However, accepted practice would be to allocate central assets to CGUs on a reasonable and consistent basis.

Practical tip: allocating central assets

When practicable, it is often most appropriate to allocate central assets by reference to the extent to which the assets are used, as illustrated in the example below.

However, in practice, some entities allocate central assets based on the respective carrying values of the net assets allocated directly to the individual CGUs, even though this may not always be representative of the amount of central resources consumed by the individual CGUs. Other common methods of allocating central assets include pro-rating based on relative turnover, contribution or sales units. Another approach could be used if it appropriately reflects the way in which the central asset contributes to the individual CGUs. It is important that the allocation basis is applied consistently.

Example: head office assets

An entity has three divisions (A, B and C), each of which has been identified as a CGU. The net assets directly involved in each of the CGUs have carrying amounts of £300m, £450m and £500m respectively. In addition, there are head office assets with a carrying value of £250m. An allocation of the head office assets to the CGUs is in this case based on the relative usage proportions. The relative proportion of the head office resources used by the CGUs is 2:3:5.

	A £m	B £m	C £m	Total £m
Net assets directly attributable to the CGU	300	450	500	1,250
Allocation of head office	$\left[\frac{2}{10} \times 250\right] 50$	$\left[\frac{3}{10} \times 250\right] 75$	$\left[\frac{5}{10} \times 250\right] 125$	250
Total	<u>350</u>	<u>525</u>	<u>625</u>	<u>1,500</u>

If there were an indication of impairment relating to A, the recoverable amount would be compared to £350m rather than £300m. Similarly, the cash flows upon which the value in use of A is based would include the relevant portion of any cash outflows arising from central overheads.

Practical tip: no reasonable and consistent basis of allocation to individual CGUs

When central assets can't be allocated to CGUs on a reasonable and consistent basis, an alternative would be to exclude them from the CGUs and adopt a 'two step' approach.

The first step would be to perform impairment tests on the individual CGUs, excluding the unallocated central assets, and recognise any resulting impairment loss. The second step is then to combine the carrying value of all CGUs to which the central assets contribute (as adjusted for any impairment loss recognised in the first step) with the carrying value of those central assets and compare the total to the combined recoverable amount.

Assets held for their service potential (applicable mainly to public benefit entities)

Certain assets may be held primarily not for their ability to generate cash flows but for their service potential ie, the capacity to provide services that contribute to achieving an entity's objectives. This is likely to apply mainly to public benefit entities. The standard explains that, for such assets, a cash-flow-driven valuation such as the standard value in use may not be appropriate. Instead, the amount of value in use is determined by the present value of the asset's remaining service potential plus any amount likely to be received from disposal. A measure reflecting the costs avoided by possession of the asset such as depreciated replacement cost may be suitable.

The Accounting Council's Advice to the FRC noted that central assets are not expected to be measured on the basis of their service potential.

FRS 102.27.20A

FRS 102 Accounting Council's Advice
paragraph 143

Section 9

Other assets – recognising an impairment loss

Accounting for an impairment

This section sets out the requirements for recognising an impairment loss on an individual asset other than goodwill. Recognising impairment losses for CGUs and additional requirements for goodwill are dealt with in sections 10 and 11 of this factsheet respectively.

FRS 102.27.5

When the carrying amount of an asset exceeds its recoverable amount the asset must be written down to its recoverable amount. The reduction in carrying value is an impairment loss.

The appropriate recognition of the debit entry depends on whether the asset is carried at a revalued amount in accordance with another section of FRS 102 (eg, under the revaluation model in Section 17 *Property, Plant and Equipment*) or at historical cost:

- Impairment losses on non-revalued assets are recognised immediately in profit or loss.
- Impairment losses on revalued assets are treated as revaluation decreases and are recognised:
 - in other comprehensive income to the extent of any previously recognised revaluation gain accumulated in equity;
 - otherwise in profit or loss.

FRS 102.17.15F

Example: recognising an impairment loss on non-revalued assets

A factory which is carried at depreciated historical cost has a carrying amount of £10m. It becomes impaired due to an adverse change in the market for the goods that it produces. Its recoverable amount is estimated to be £7m.

The factory would therefore be written down to £7m with the full impairment loss of £3m being recognised in profit or loss.

Example: recognising an impairment loss on revalued assets

A factory which is subject to a policy of revaluation has a carrying amount of £10m. Its depreciated historical cost is £8m (ie, there is a £2m revaluation reserve in equity). The factory becomes impaired due to an adverse change in the market for the goods that it produces. Its recoverable amount is estimated to be £7m.

The factory would therefore be written down to £7m. The first £2m of the impairment loss – which reduces the asset's carrying value down to its depreciated historical cost – is recognised in other comprehensive income. The remaining £1m impairment loss is recognised in profit or loss.

Subsequent depreciation

The carrying amount after impairment, less any residual value, forms the asset's new depreciable amount. This must be depreciated over the asset's remaining useful life, which may need to be reassessed.

Section 10

Allocating impairment losses in cash-generating units

Recognising and measuring an impairment loss for a cash-generating unit

The impairment loss recognised for a CGU has to be allocated to the assets of the unit in the following order:

- first to any goodwill allocated to the CGU; and
- then pro rata to the other assets of the unit based on their individual carrying amounts.

In allocating an impairment loss across the assets of the CGU, the carrying value of an individual asset is not permitted to be reduced below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

FRS 102.27.22

When this restriction means that an amount of impairment loss cannot be allocated to an asset, the excess is allocated pro rata to the other assets of the CGU on the basis of their carrying amounts.

FRS 102.27.23

Practical tip: in what order should these steps be taken?

The implication of the restrictions in FRS 102 paragraph 27.22 is that, in practice, in cases when the impairment loss is not fully absorbed by goodwill, an entity has to estimate the recoverable amount of the individual assets in a CGU – to the extent possible – before carrying out the allocation of the overall CGU impairment loss.

Example: allocating an impairment loss across a CGU

An entity carries out an impairment assessment for a CGU with a total carrying value of £2,600,000 and estimates that its total recoverable amount is £1,350,000. The total impairment loss is therefore £1,250,000.

Information on the individual assets in the CGU is as follows:

	Carrying amount pre-impairment £'000	Fair value less costs to sell £'000	Value in use £'000
Goodwill	800	-	-
Other intangibles	300	100	Not known
Property	600	500	Not known
Plant and equipment	500	Not known	Not known
Debtors, cash	400	400	400
Total	2,600		

Allocation of £1,250,000 impairment:

i) first to goodwill: £800,000

ii) pro rata allocation of remaining impairment [£1,250,000 less £800,000 = £450,000] to other assets (carrying value before impairment £1,800,000), restricted to ensure that assets are not written down below the highest of fair value less costs to sell, value in use or nil:

	Other intangibles £'000	Property £'000	Plant and equipment £'000	Debtors, cash £'000
Initial allocation	75	150	125	100
	[450x300/1,800]	[450x600/1,800]	[450x500/1,800]	[450x400/1,800]
Restricted to	200	100	500	nil
Excess impairment	nil	50	nil	100
Reallocation of impairment	56	(50)	94	(100)
	[150x300/800]		[150x500/800]	
Final impairment	131	100	219	-

The revised carrying values after impairment are therefore:

	Carrying amount pre- impairment £'000	Impairment £'000	Carrying amount post- impairment £'000
Goodwill	800	800	0
Other intangibles	300	131	169
Property	600	100	500
Plant and equipment	500	219	281
Debtors, cash	400	0	400
Total	2,600	1,250	1,350

Section 11

Additional requirements for goodwill

Allocation of goodwill for impairment testing

The standard explains that, since goodwill cannot be sold and does not generate cash flows that are independent of the cash flows of other assets, its fair value cannot be measured directly. The fair value of goodwill therefore has to be derived from measurement of the fair value of the CGU(s) of which the goodwill is a part.

FRS 102.27.24

For the purposes of impairment testing, goodwill acquired in a business combination must be allocated to each of the CGUs that is expected to benefit from the synergies of the combination. This applies even if none of the assets or liabilities acquired are assigned to those units.

FRS 102.27.25

Non-wholly-owned CGUs

When a CGU is not wholly-owned ie, when there is a non-controlling interest in the CGU, part of the recoverable amount of the CGU is attributable to the non-controlling interest in goodwill. For example, the cash flows used in calculating value in use would reflect the entire acquired business, even if in fact the CGU is not wholly-owned. To ensure the comparison with carrying value is like-for-like, the carrying value of the CGU is grossed up for the amount of goodwill attributable to the non-controlling interest.

FRS 102.27.26

Example: non-controlling interest measured at the proportionate share of net assets

P acquired 60% of S on 1 June 20X2 for £980,000. The net assets of S at this date were £1,200,000. The goodwill arising on acquisition was therefore:

	£
Consideration	980,000
Share of net assets acquired [60% x £1,200,000]	<u>720,000</u>
Goodwill	<u>260,000</u>

P has identified S to be a CGU.

The business combination will benefit S and other CGUs.

For impairment testing purposes, £180,000 of the goodwill is allocated to S and £80,000 is allocated to other CGUs.

On 31 December 20X2, the recoverable amount of S was assessed to be £1,500,000. The carrying amount of the net assets of S, excluding goodwill, was £1,300,000. The aggregate carrying value including goodwill was therefore £1,480,000 so it might appear that the CGU was not impaired. However, the carrying amount of the CGU must be adjusted to include not only the amount of recognised goodwill allocated to S (£180,000) but also notional unrecognised goodwill attributable to the non-controlling interest before being compared to the CGU's recoverable amount.

	Goodwill £	Identifiable net assets £	Total £
Carrying value	180,000	1,300,000	1,480,000
Notional unrecognised goodwill relating to the non-controlling interest [40/60 x 180,000]	120,000	-	120,000
	<u>300,000</u>	<u>1,300,000</u>	<u>1,600,000</u>
Recoverable amount		(1,500,000)	
Impairment loss		100,000	

The impairment loss is allocated first to goodwill. As S is itself a CGU, the goodwill impairment loss is allocated between the controlling and non-controlling interest on the same basis as that on which profit or loss is allocated. In this case the entire impairment loss is absorbed by goodwill so there is no remaining impairment loss to allocate to the other net assets in the CGU.

	Unrecognised goodwill £	Recognised goodwill £	Net assets £	Total recognised £
Notional value / carrying amount	120,000	180,000	1,300,000	1,480,000
Impairment	(40,000)	(60,000)		(60,000)
	<u>80,000</u>	<u>120,000</u>	<u>1,300,000</u>	<u>1,420,000</u>

£40,000 of impairment loss is allocated to notional goodwill and thus is not recognised in the financial statements. The remaining £60,000 is recognised in profit or loss.

Testing goodwill for impairment

In some cases, goodwill cannot be allocated to CGUs on anything other than an arbitrary basis. In such cases, the standard sets out specific requirements as to how goodwill is tested for impairment.

FRS 102.27.27

The required approach depends on whether the acquired entity has been integrated or not. In this context, integrated means that the acquired business has been restructured or dissolved into the reporting entity or other subsidiaries in the acquiring group.

When the acquired entity has not been integrated, goodwill is tested by determining the recoverable amount of the acquired entity as a whole. When the acquired entity has been integrated, goodwill is tested by determining the recoverable amount of the entire group of entities (excluding any entities that have not been integrated).

Clearly, in order to meet these requirements, total goodwill will need to be separated into goodwill related to entities that have been integrated and goodwill related to other entities.

The entity must also apply the requirements for calculating the recoverable amount and allocating impairment losses that apply to CGUs, as set out in FRS 102 paragraphs 27.21-23 and explained in section 10 of this factsheet.

Section 12

Other assets – reversal of an impairment loss

General principles

Goodwill

An impairment loss in respect of goodwill is not permitted to be reversed in a subsequent period. There are no exceptions to this even if the indications are that the reasons for the impairment no longer exist.

FRS 102.27.28

Other assets

For all assets other than goodwill, an impairment loss is reversed in a subsequent period if, and only if, the reasons for the loss have ceased to apply.

FRS 102.27.29

An entity has to assess at each reporting date whether there is any indication that an impairment recognised in a prior period no longer exists or may have decreased in amount. There is no element of choice in this: if there has been a reversal of impairment it must be recognised. Indications of the reversal of an impairment loss are generally the inverse of the indications of an impairment set out in section 7 of this factsheet.

Practical tip: indications of impairment losses reversing

Indications that previously recognised impairment losses may have decreased or no longer exist could potentially include:

- decreases in interest rates;
- changes in selling prices or costs arising from movements in exchange rates; and
- improvements in economic outlook.

Recognising a reversal

The procedure for determining whether an entity recognises the reversal of an impairment loss – which could be in whole or in part – depends on whether the original loss related to an individual asset or to a CGU.

Individual impaired asset

The starting point is to estimate the recoverable amount of the asset at the current reporting date. If the new recoverable amount is higher than the asset's carrying amount, then the carrying amount is increased to the recoverable amount.

FRS 102.27.30

However, any impairment reversal is subject to a limit: the revised carrying amount is not permitted to be higher than it would have been (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

Example: reversing an impairment

An asset has a cost of £100 and a useful life of 10 years.

The entity recognises an impairment loss of £32 in year 2 but assesses in year 4 that the reasons for the loss have ceased to apply. The asset's recoverable amount at the end of year 4 is estimated at £66.

The asset's carrying amount would be determined as follows:

Memorandum	0	1	2	3	4	5
Time	0	1	2	3	4	5
Depreciated historical cost	100	90	80	70	60	50
Carrying amount brought forward	100	90	48	42	60	
Depreciation	(10)	(10)	(6)	(6)	(10)	
Impairment / Reversal	-	(32)	-	24*		
Carrying amount carried forward	90	48	42	60	50	

*Although recoverable amount is £66, the impairment reversal is restricted to £24 as the asset's carrying amount may not exceed depreciated historical cost.

Cash-generating unit

Again, the first step is to estimate the CGU's recoverable amount at the current reporting date. If the new recoverable amount is higher than the CGU's carrying amount, then the carrying amount of the CGU is increased to the new recoverable amount. The amount of the reversal is allocated to the assets in the CGU, except for goodwill, pro rata with the carrying amounts of those individual assets.

FRS 102.27.31

As for reversals in respect of individual assets, this is subject to a limit. The revised carrying amount of each asset in the CGU is not permitted to be higher than the lower of its recoverable amount and the carrying value that it would have had if no impairment loss had been recognised for the asset in prior periods.

Presentation of the credit

The amount of the impairment reversal is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another section of FRS 102 (for example, under the revaluation model in Section 17 *Property, Plant and Equipment*).

FRS 102.17.15E

An impairment reversal on a revalued asset is treated as a revaluation increase and is recognised:

- in profit or loss to the extent it reverses a revaluation decrease of the same asset previously recognised in profit or loss;
- otherwise in other comprehensive income.

Subsequent depreciation or amortisation

When there has been a reversal of an impairment loss, the subsequent depreciation or amortisation of the individual asset, or of each asset in the CGU, is based on the revised carrying amount. The revised carrying amount, less any residual value, is therefore allocated over the asset's remaining useful life.

Section 13

Disclosures

Disclosures required by Section 27

Disclosure is required of:

FRS 102.27.32

- the amount of any impairment losses recognised in profit or loss during the period;
- the amount of any reversals of impairment losses recognised in profit or loss during the period;
- in each case the line item(s) in the statement of comprehensive income (or in the profit and loss account if presented) in which the impairment or reversal is included; and
- a description of the events and circumstances that led to the impairment or reversal.

These disclosures are required separately for each of the following classes of asset:

FRS 102.27.33

- inventories;
- property, plant and equipment (including any investment property accounted for by the cost method);
- goodwill;
- other intangible assets;
- investments in associates; and
- investments in joint ventures.

Disclosures required by Section 17

In addition, Section 17 *Property, Plant and Equipment* requires the following disclosures for each class of asset:

FRS 102.17.31

- the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and the end of the reporting period; and
- the impairment losses recognised or reversed in profit or loss as part of the reconciliation of the carrying amount of property, plant and equipment at the beginning and end of the reporting period.

Other disclosures

The impairment of assets is an area in which assumptions about the future play a fundamental role, so entities will also need to consider the requirements of FRS 102 Section 8 *Notes to the Financial Statements*, and in particular the need to disclose information about key sources of estimation uncertainty. When those sources of estimation uncertainty carry a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year, details of the nature of the assets affected and their carrying value must be provided.

FRS 102.8.7

Small entities

Entities applying FRS 102 Section 1A *Small Entities* are not required to provide the detailed disclosures set out above; for such entities, the required disclosures are restricted to the amount of any impairment losses and/or reversal of impairment losses of fixed assets. However, further information on impairments must be presented when necessary to meet the overriding requirement for the financial statements to give a true and fair view.

FRS 102.1AC.20-21

FRS 102.1A.16-17

Contacts and further help

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The faculty cannot offer interpretations of standards or give views on the application of standards to particular companies or transactions.

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- [FRS 102 Overview](#)
- [2024 UK GAAP Accounts](#)
- [The UK Financial Reporting Regime](#)

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The Financial Reporting Faculty

The faculty aims to help members keep up to date with the implications of new standards, regulations and practice in corporate reporting.

Our international community of corporate reporting professionals also contribute to the ICAEW's work in influencing the development of corporate reporting concepts, standards and regulation.

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