



Accounting for Impairments under FRS 102

27 September 2018

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Accounting for Impairments under FRS 102

27 September 2018

Introduction

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Today's presenters

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Contents

Scope

Inventories

Overview of principles – other assets

Impairment test: when and how

Recognising an impairment loss

Reversing an impairment loss

Disclosures

Scope of FRS 102 Section 27

In general, applies to the impairment of all assets -
but with some important exceptions:

Construction
contract
assets

Deferred tax
assets

Employee
benefit
assets

Investment
property

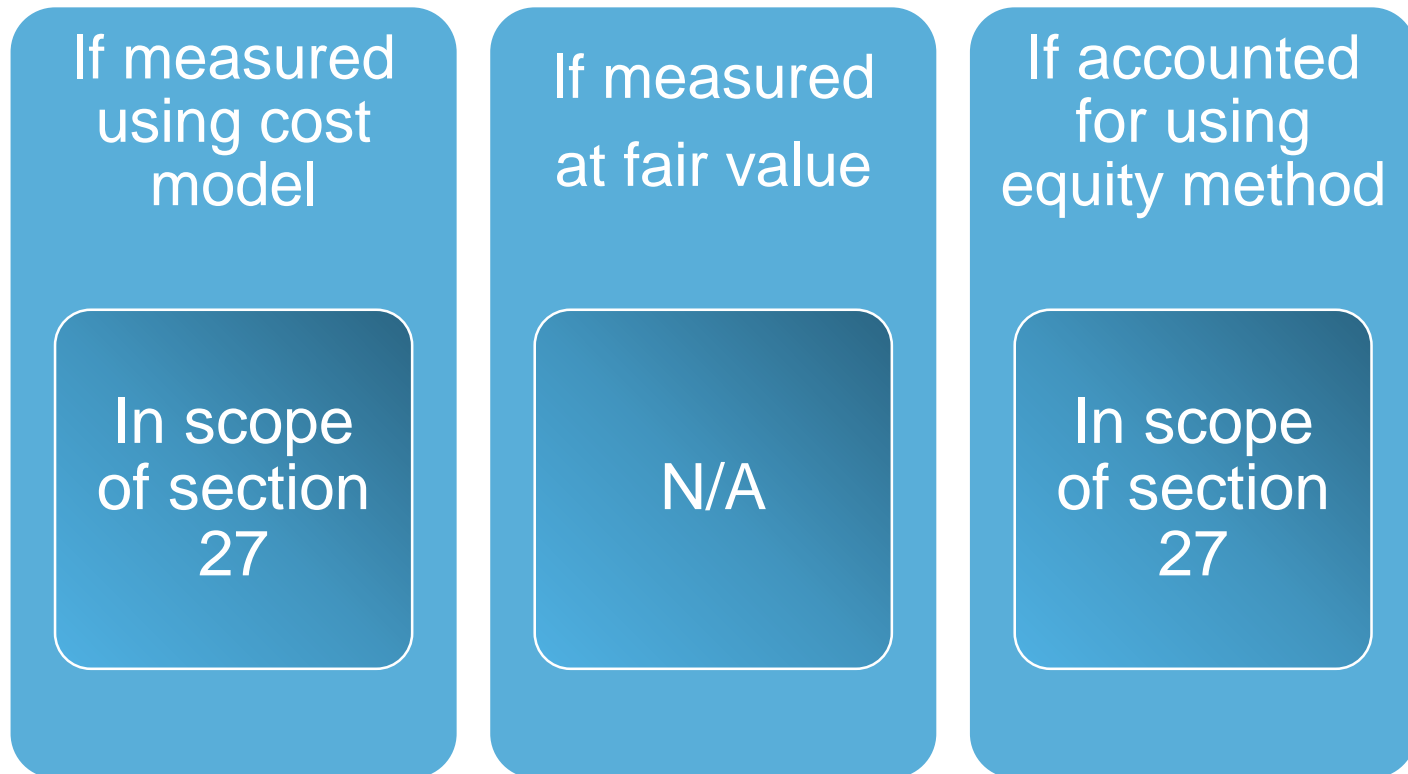
Biological
assets

Insurance
contract
assets

Financial assets in scope
of Sections 11 or 12

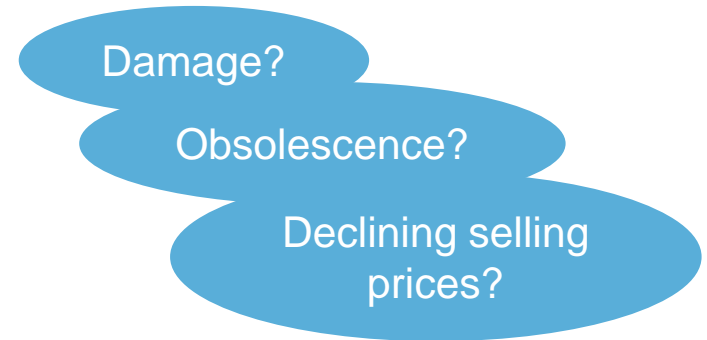
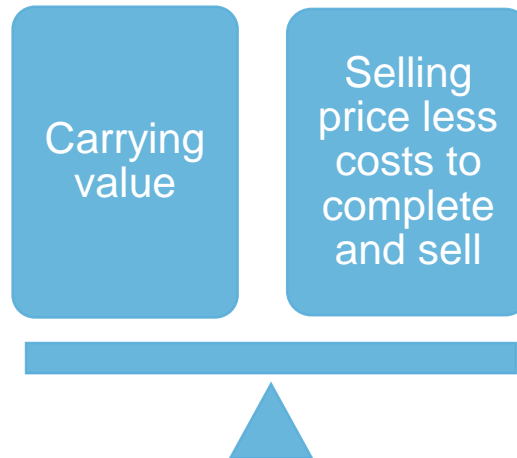
Scope of FRS 102 Section 27

Investments in subsidiaries, associates and joint ventures:

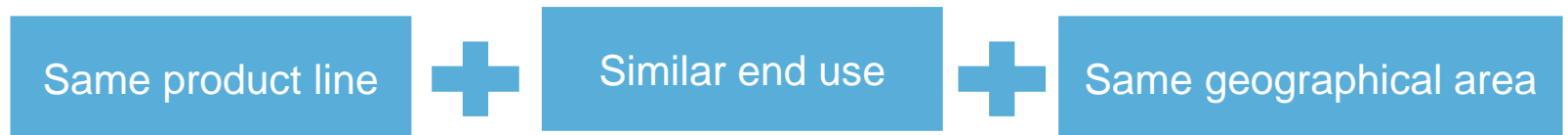


Impairment of inventories

- Assess at each reporting date:
- Carry out comparison:

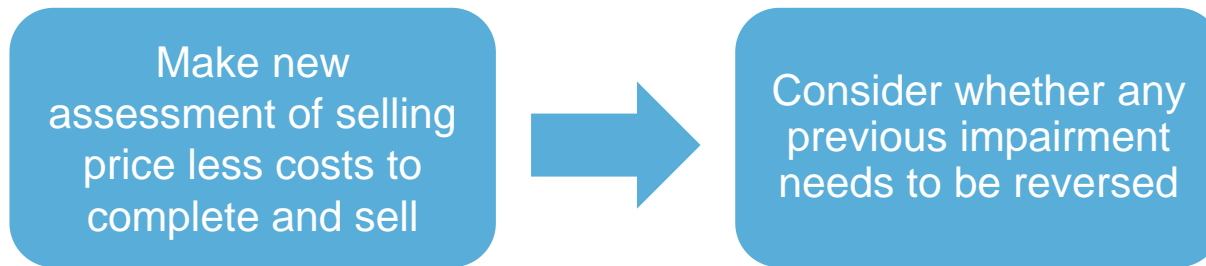


- Can assess for a group of items, subject to restrictions:

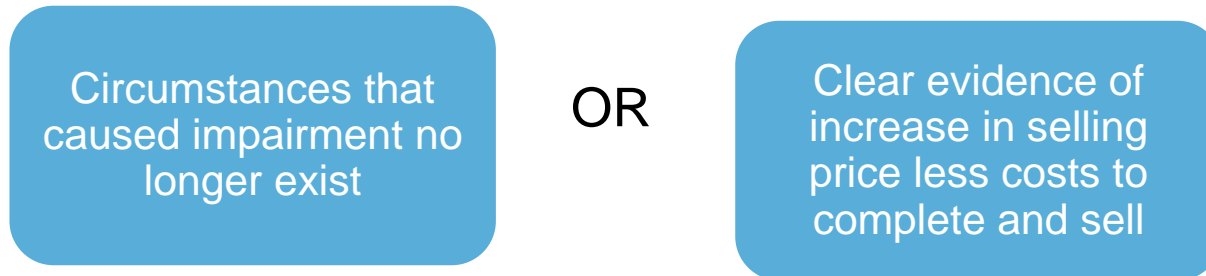


Inventories – reversal of impairment

- At each reporting date:



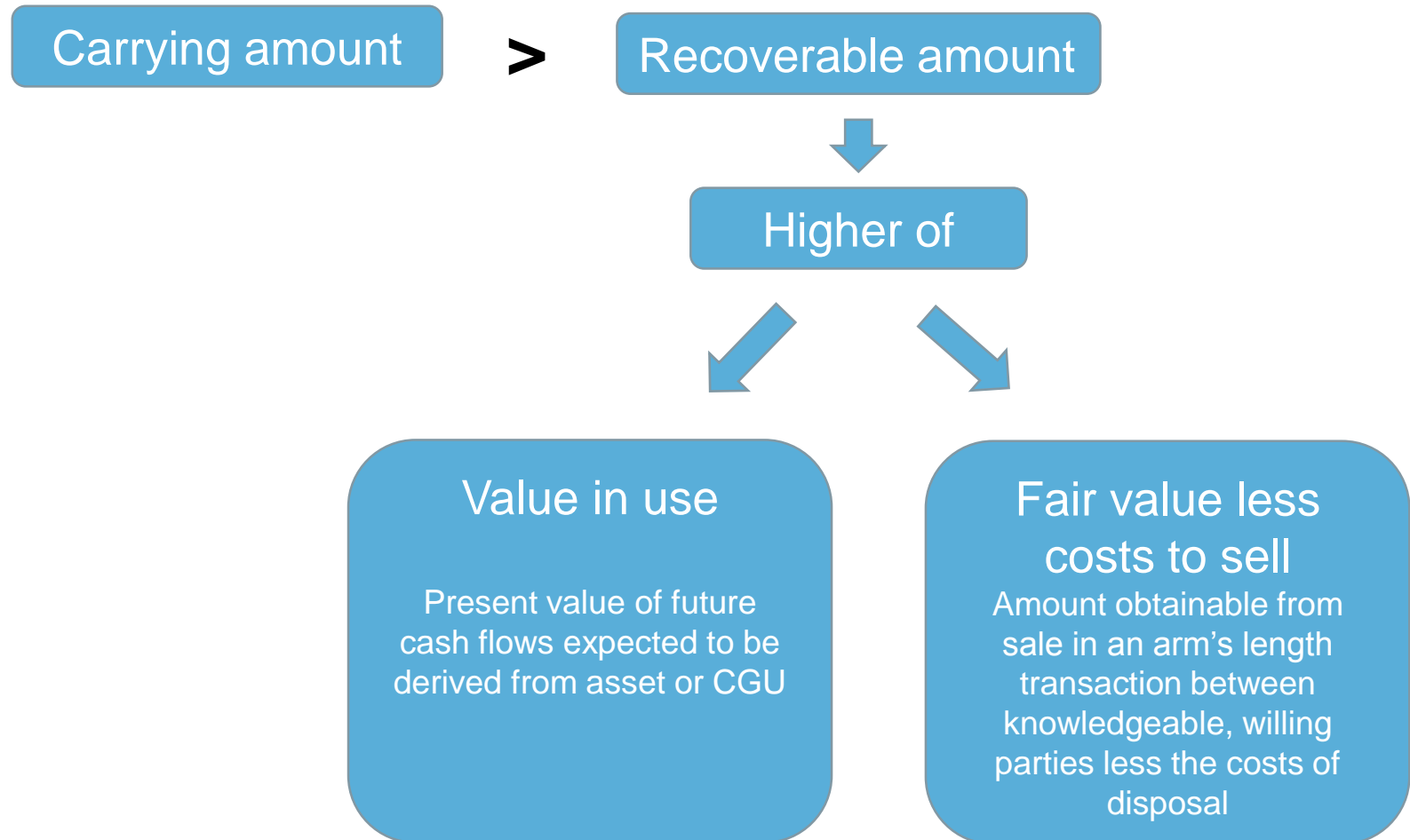
- Reversal required when:



- Reversal limited to amount of original impairment
- Credit is gain in profit or loss

Other assets – overview of principles

- Asset or CGU impaired when



Cash-generating units

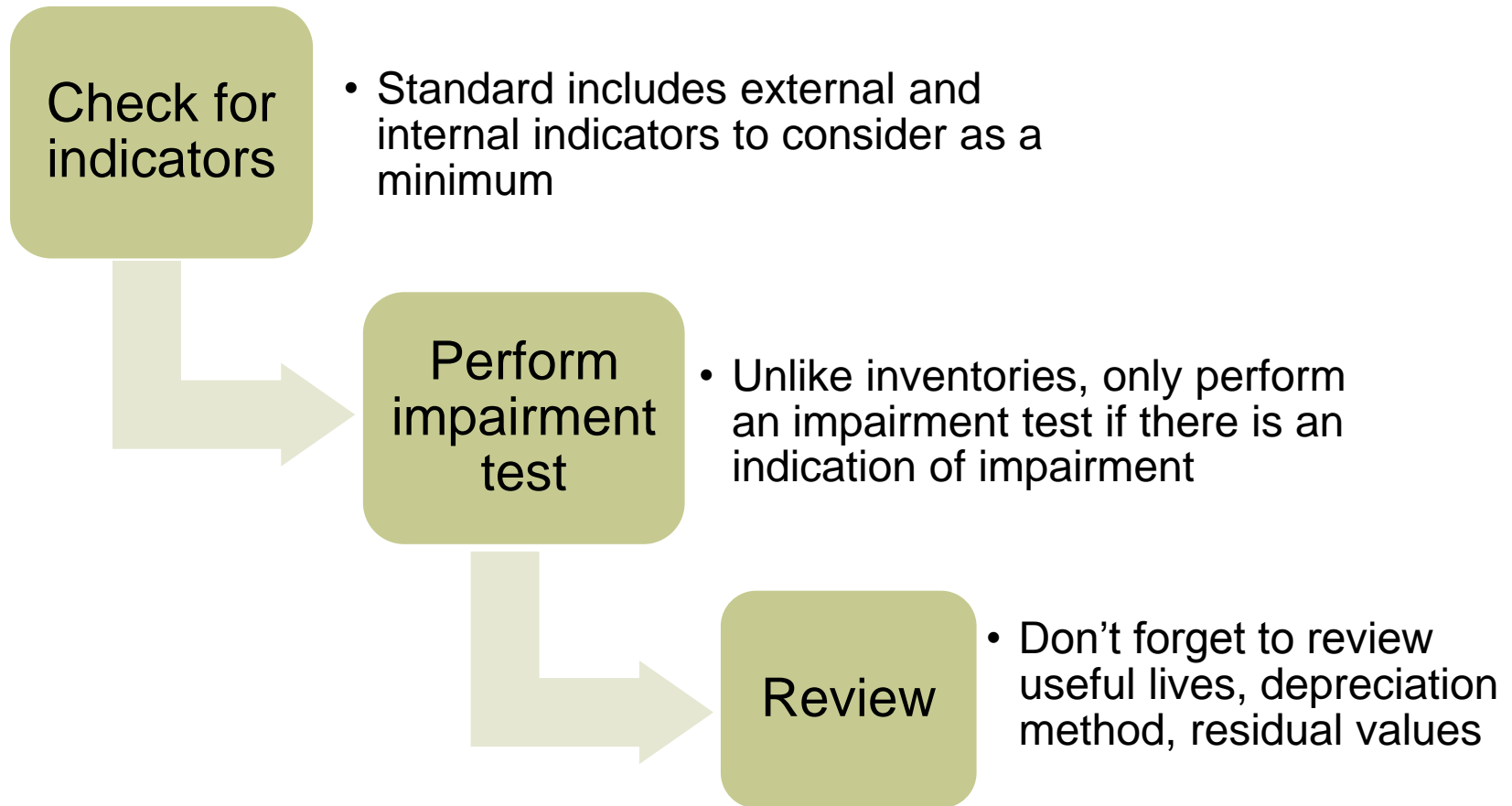
- If not possible to estimate recoverable amount for a single asset, need to estimate recoverable amount of the CGU to which asset belongs

CGU

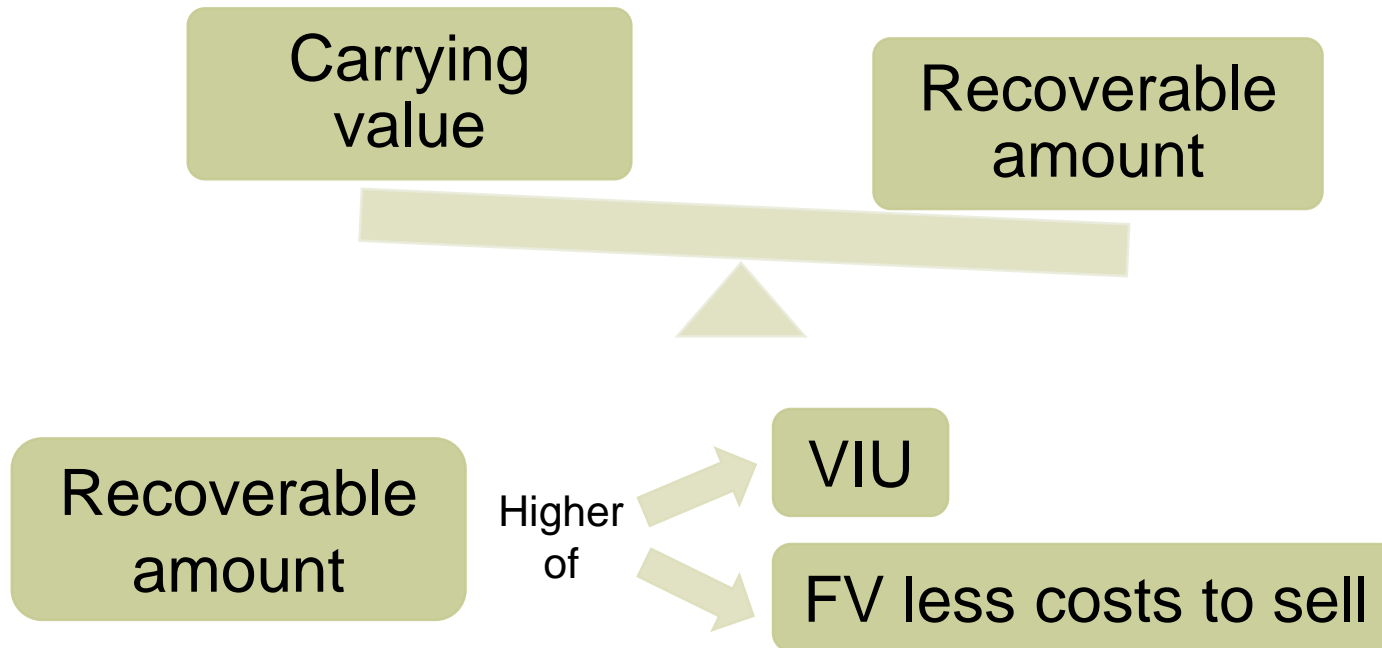
Smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

- The number and nature of CGUs depends on the business and how its operations are structured
- Assets to be disposed of – assess for impairment as a single asset, not as part of a CGU

When to perform an impairment test



How to perform an impairment test



- For many assets VIU likely to be higher than FV less costs to sell
- Not always necessary to determine both VIU and FV less costs to sell
- If holding for disposal, then can use FV less costs to sell

How to determine FV less costs to sell

Market info

- Price in binding arm's length sale agreement, or
- Market price in an active market

Estimate

- Based on best information available
- Consistent with 3rd party assumptions
- Take into account any restrictions

Costs to sell

- Direct and incremental costs
- Include: legal costs, transaction taxes, moving costs
- Exclude: reorganisation expenses, redundancy costs

How to calculate VIU

VIU



Present value of future cash flows expected to be derived from asset or CGU

Cash flows

Recent budgets and forecasts are a good starting point

Based on asset or CGU's current condition

Exclude: uncommitted future enhancements or restructurings

Include: maintenance costs

Extrapolation, assume a steady or declining growth rate

Discount rate

Should: reflect time value of money and risks specific to the asset or CGU

Should not: double count for risks for which cash flows have already been adjusted

WACC used as a starting point, but should be adjusted for asset or CGU specific risks

How to calculate VIU

VIU



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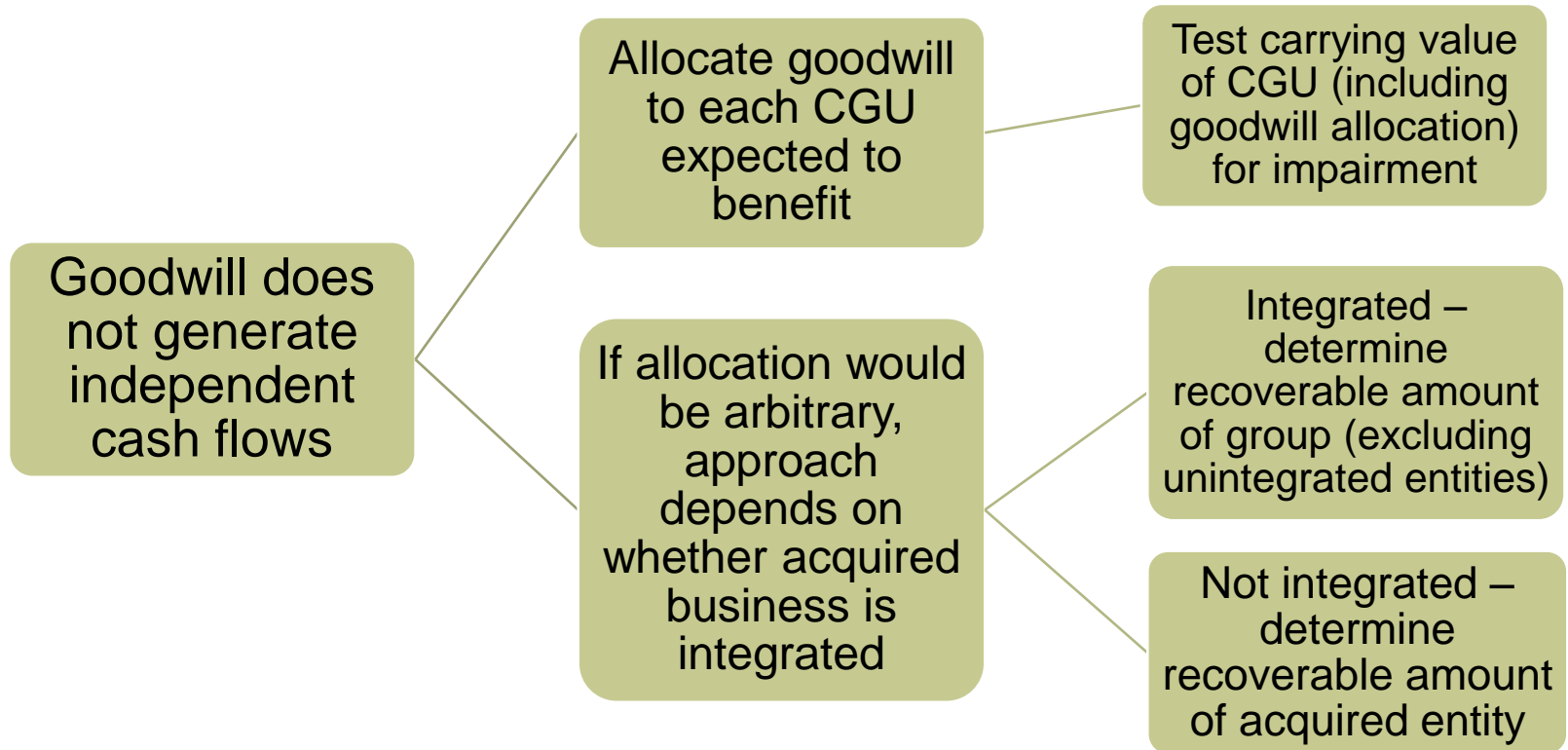
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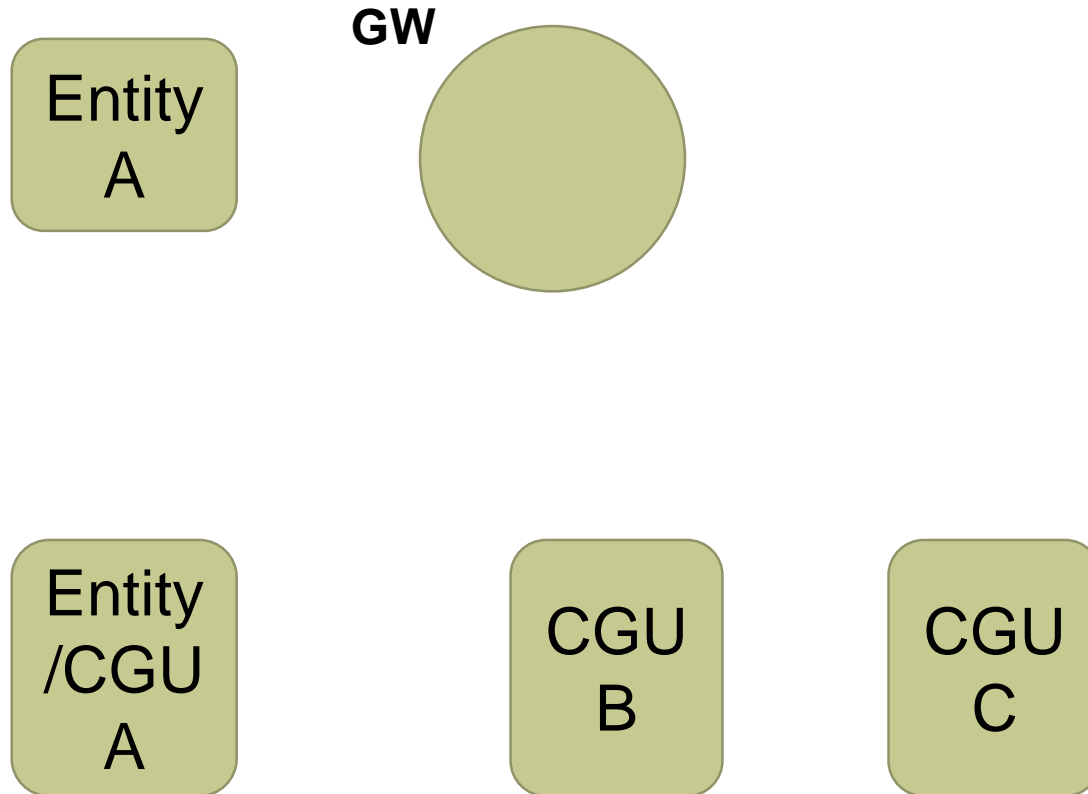
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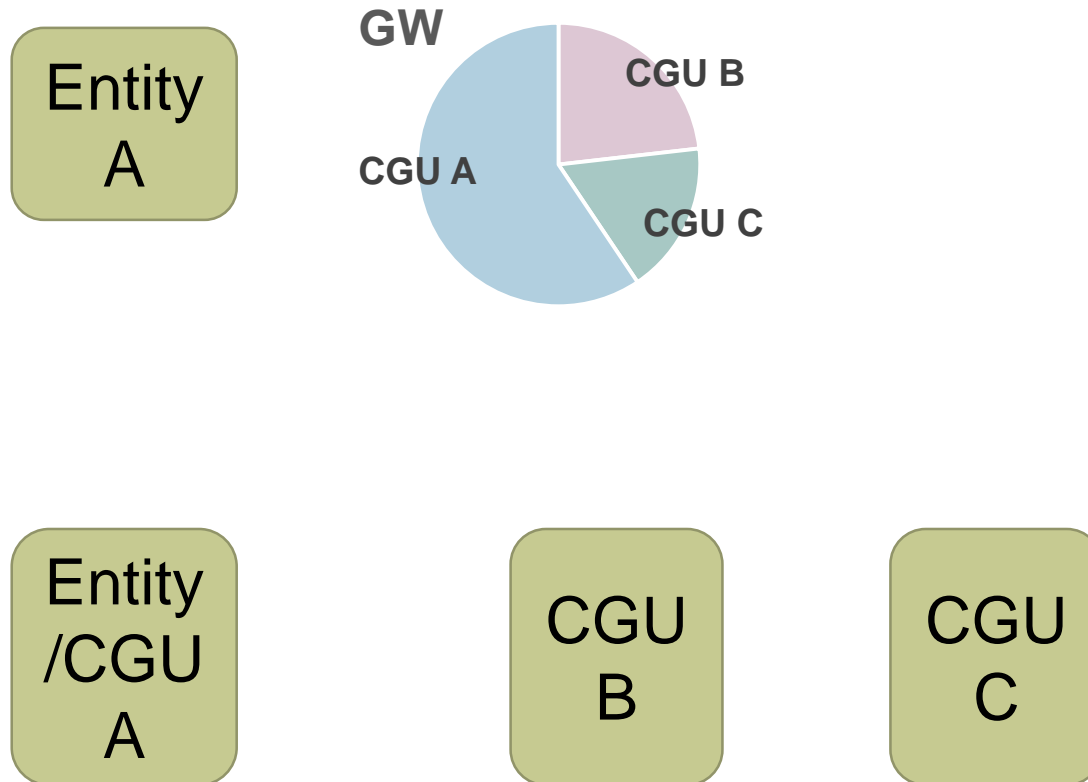
How to test goodwill for impairment



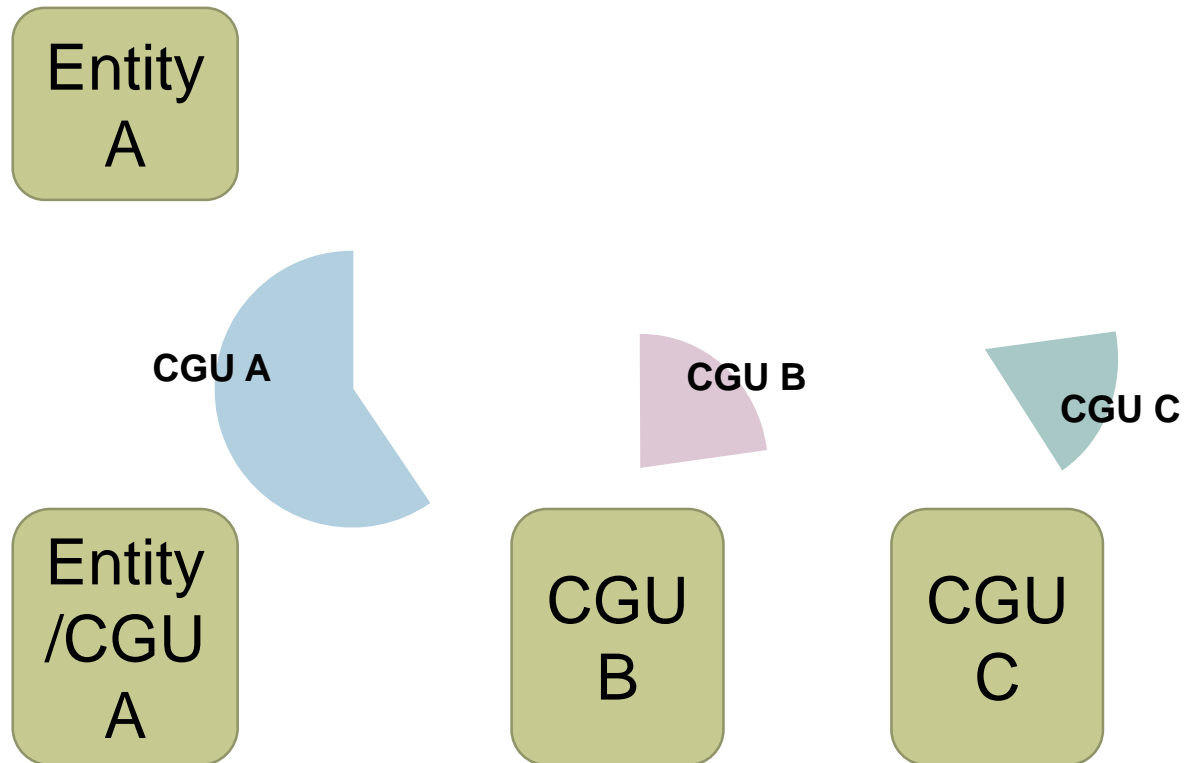
How to test goodwill for impairment



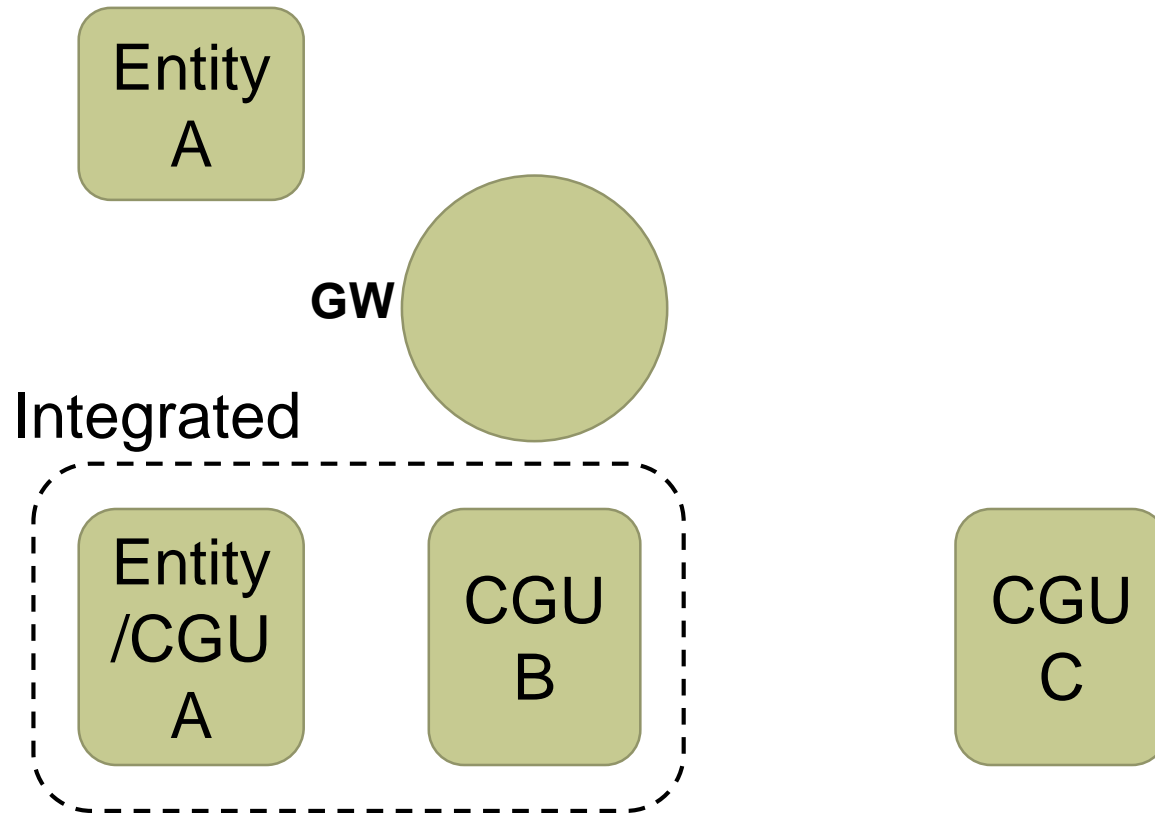
How to test goodwill for impairment



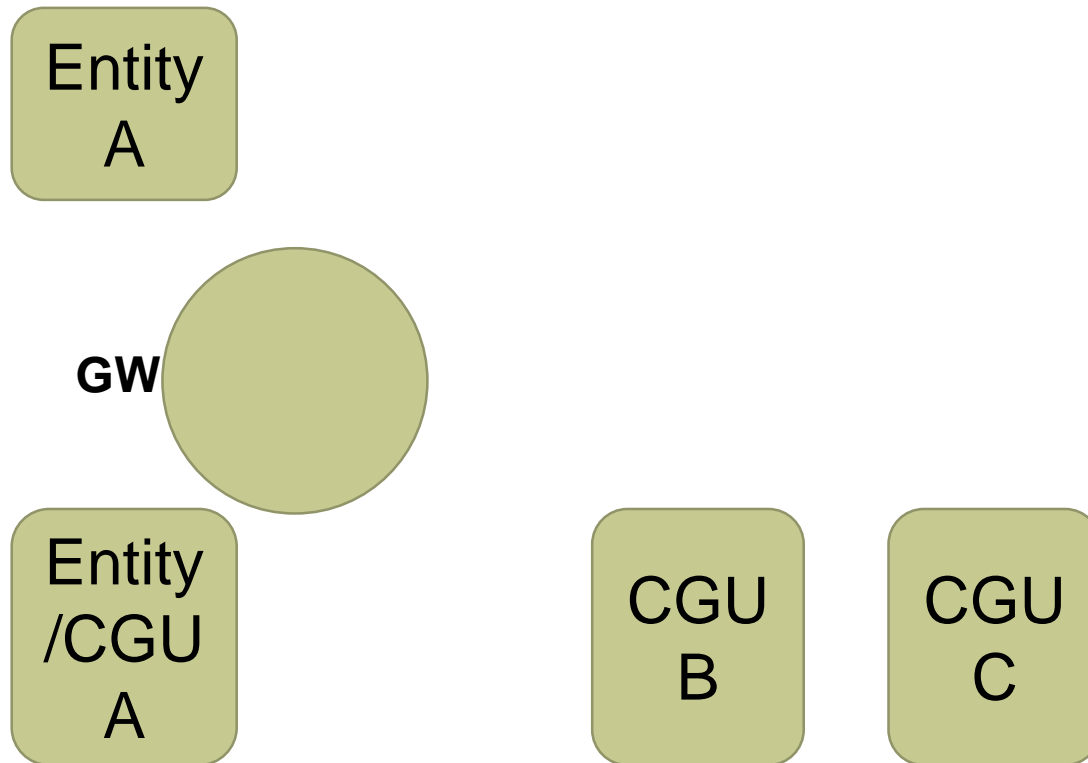
How to test goodwill for impairment



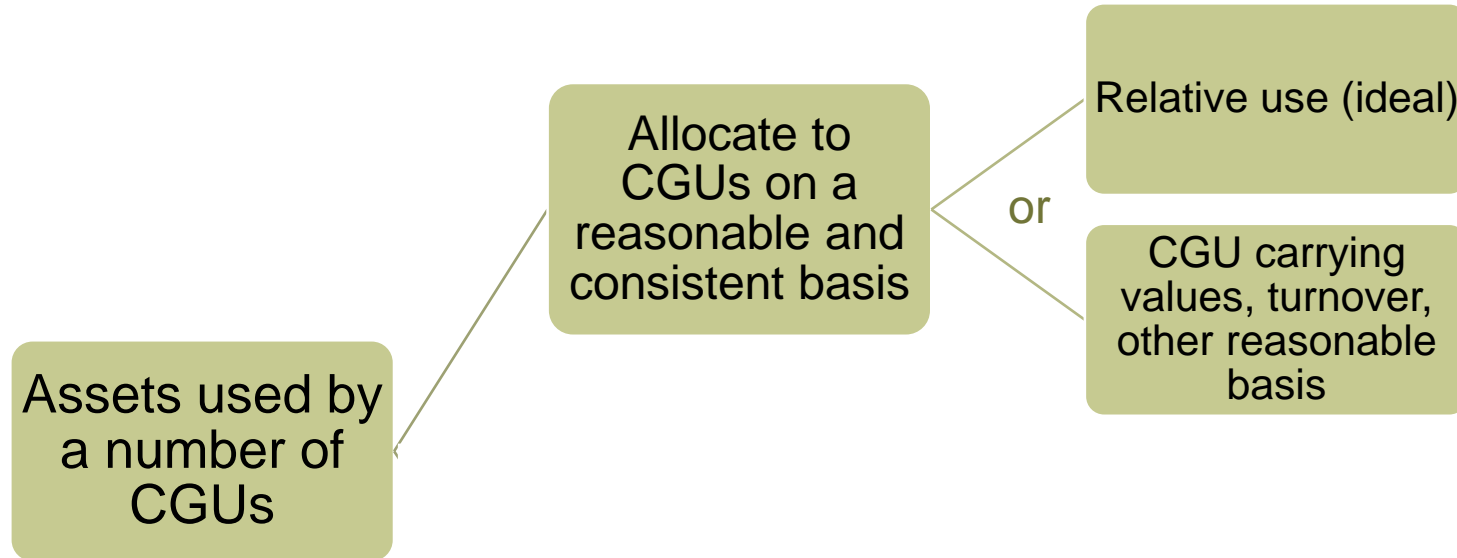
How to test goodwill for impairment



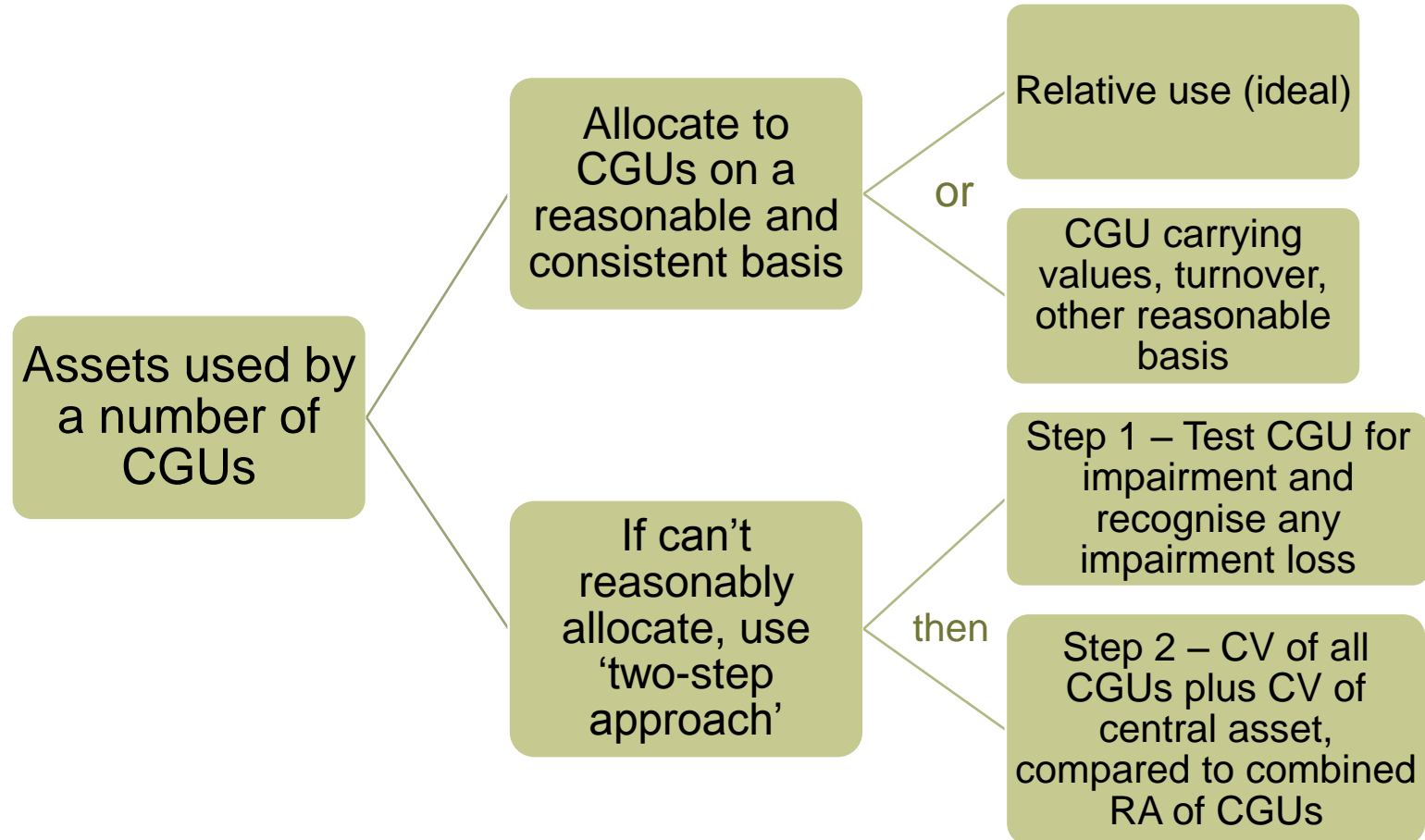
How to test goodwill for impairment



How to test central assets for impairment



How to test central assets for impairment



Poll question

What have you found the most challenging when applying the impairment requirements in practice? [you can select multiple answers]

- a. Identifying CGUs
- b. Determining the discount rate
- c. Forecasting cash flows
- d. Determining fair value less costs to sell
- e. Not sure – haven't performed an impairment test yet/recently
- f. None of the above

Recognising an impairment loss – single asset

- Historical cost – profit or loss
- Revalued asset – treated as a revaluation decrease
 - OCI (against cumulative revaluation gain), and thereafter
 - Profit or loss

Historical cost	
Carrying value	£10m
Recoverable amount (VIU = £6m; FV = £7m)	£7m
Impairment loss (Profit or loss)	£3m

Revalued asset	
Carrying value (Revaluation reserve £2m)	£10m
Recoverable amount (VIU = £6m; FV = £7m)	£7m
Impairment loss (OCI)	£2m
Impairment loss (Profit or loss)	£1m

Recognising an impairment loss - CGU

- First to goodwill
- Then pro-rata to other assets of CGU based on CV
 - **BUT** can't reduce individual asset below its RA or zero
 - Any excess allocated to other assets of the CGU based on CV

Recognising an impairment loss

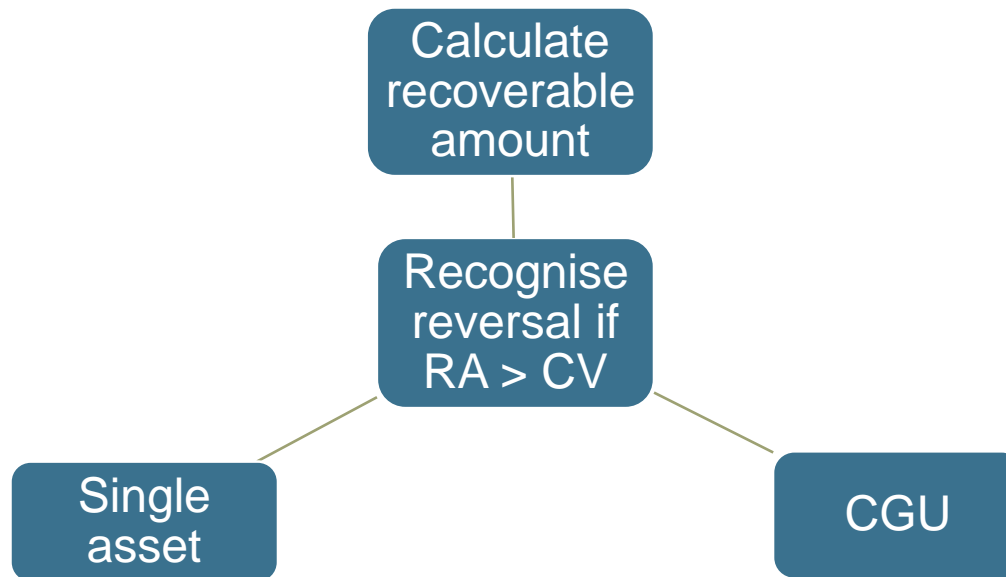
CGU £'000s	Carrying amount pre-impairment	Individual recoverable amounts
Goodwill	800	-
Other intangibles	300	100
Property	600	500
Plant and equipment	500	Not known
Debtors	400	400
Total CV	2,600	
Recoverable amount	1,350	
Total impairment loss	1,250	
Goodwill	(800)	
Remaining impairment loss to be allocated	(450)	

Recognising an impairment loss

£'000s	Other intangibles CA = 300 RA = 100	Property CA = 600 RA = 500	Plant and equipment CA = 500 RA = NA	Debtors CA = 400 RA = 400
Initial allocation	75 [450x300/1,800]	150 [450x600/1,800]	125 [450x500/1,800]	100 [450x400/1,800]
Impairment restricted to	200 [300-100]	100 [600-500]	500 [500-Nil]	Nil [400-400]
Excess impairment	Nil	50	Nil	100
Reallocation of impairment	56 [150x300/800]	(50)	94 [150x500/800]	(100)
Final impairment	131 [75+56]	100	219 [125+94]	Nil

Reversing an impairment loss

- Subsequent periods must consider if there has been a reversal
- Not a choice, if there has been a reversal it must be recognised
- Indicators of reversal are generally the opposite of impairment indicators

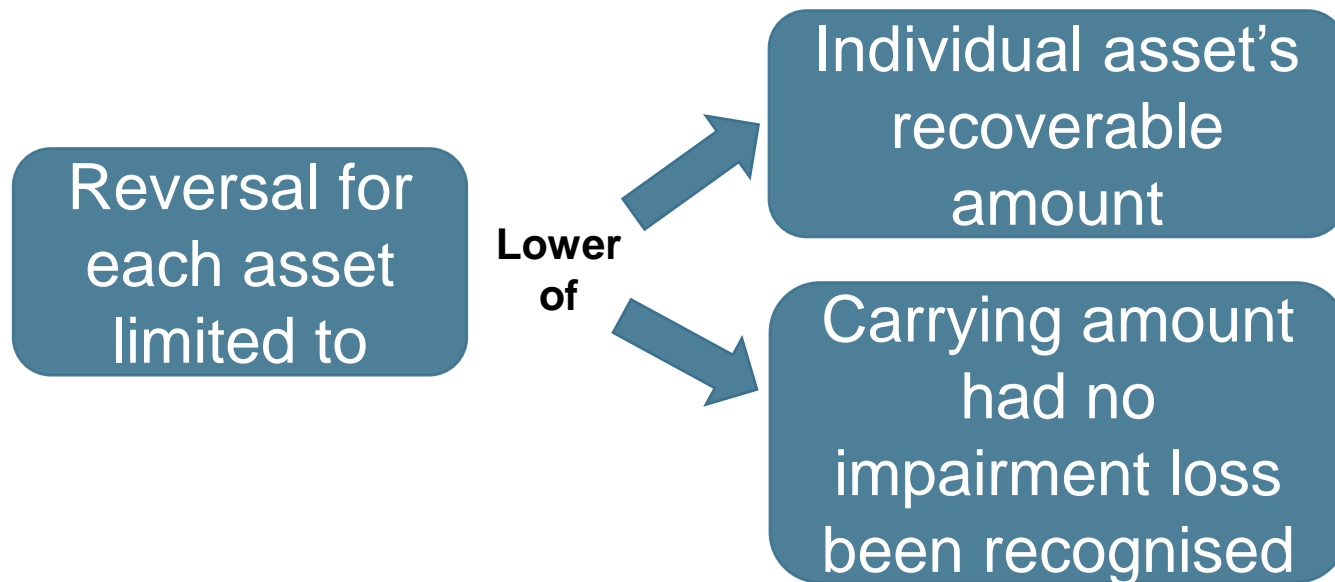


Reversing an impairment loss – single asset

- Any reversal is **limited** to the carrying amount that would have been recognised (net of depreciation) had no impairment loss been recognised
- Historical cost – profit or loss
- Revalued asset – treated as a revaluation increase
 - Profit or loss (to extent reverses previous impairment in P&L), and thereafter
 - OCI

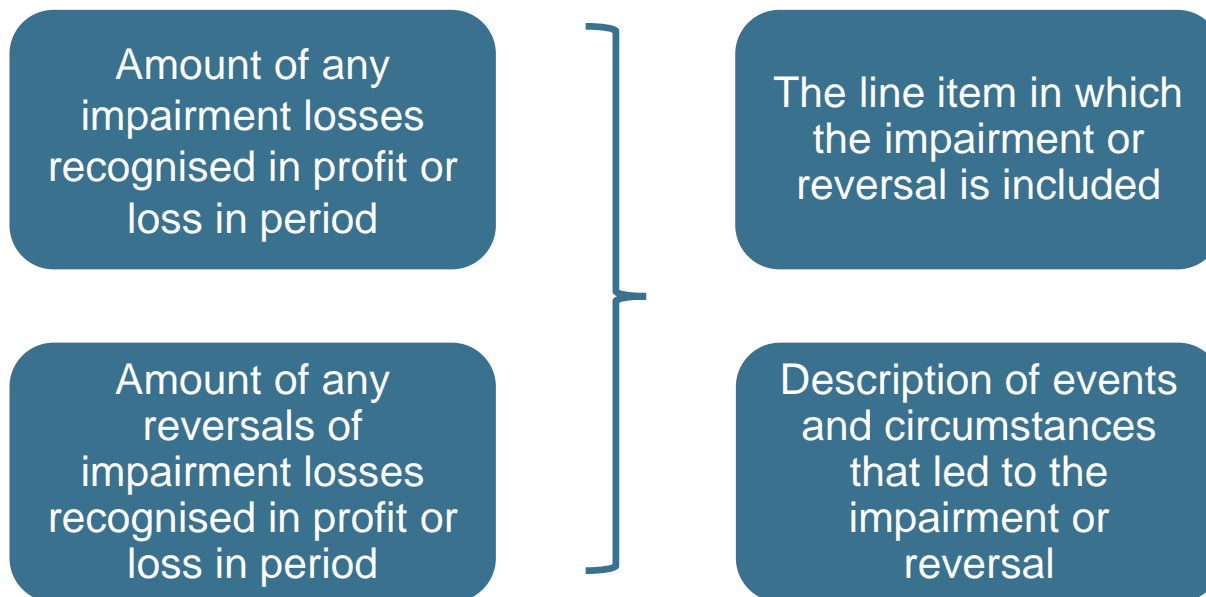
Reversing an impairment loss - CGU

- Reversal allocated to assets in the CGU pro-rata, except goodwill
- Impairment loss on goodwill is not reversed



Disclosures

- Disclosures required by Section 27 separately for each class of asset:



- Consider also:
 - Requirements of Section 17 PPE
 - Disclosure of key sources of estimation uncertainty

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Questions

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-
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-
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