Brewing Over

IFRS vs IFRS for SMEs – Part 2

Impairment of assets – Section 27 vs IAS 36

In comparing IFRS and IFRS for SMEs, this series of articles highlights some of the similarities and differences between the two accounting frameworks.

This second article in this series of similarities and differences between IFRS and IFRS for SMEs outlines the main differences and similarities between IFRS for SMEs, Section 27, Impairment of Assets and IAS 36, Impairment of Assets.

IFRS FOR SMES - SECTION 27 Impairment of Assets

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. ***If there is no indication of impairment, it is not necessary to estimate the recoverable amount.***

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect materially the discount rate used in calculating an asset's value in use and decrease the asset's fair value less costs to sell.
d) the carrying amount of the net assets of the entity is more than the estimated fair value of the entity as a whole (such an estimate may have been made, for

example, in relation to the potential sale of part or all of the entity).

Internal sources of information

a) evidence is available of obsolescence or physical damage of an asset.
b) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs and plans to dispose of an asset before the previously expected date.
c) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. In this context economic performance includes operating results and cash flows.

IFRS – IAS 36 Impairment of Assets

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, an entity shall also:
(a) test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.
(b) test goodwill acquired in a business combination for impairment annually (para 10)

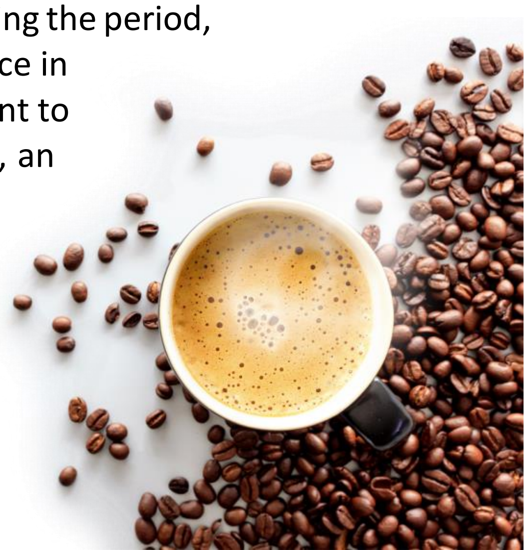
In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

a) there are observable indications that the assets value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
b) significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an assets value in use and decrease the assets recoverable amount materially.
d) the carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information

a) evidence is available of obsolescence or physical damage of an asset.
b) significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used.



c) evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

Similarly, Both IFRS and IFRS for SMEs require and entity to assess, at the end of each reporting period, if there is an indicator that an asset may be impaired. Both of the frameworks set out internal and external indicators of impairment. It can be noted from the indicators listed above, the indicators included in the standards are similar. And in terms of both standards, these lists are not exhaustive.

The main differentiator between the standards is that, IAS 36 requires, irrespective of whether there is an indication of impairment, an entity is required to test the following assets for impairment on an annual basis:

i) intangible assets with indefinite useful life,
ii) intangible assets not yet available for use, and
iii) goodwill acquired from a business combination.

IFRS for SMEs does not mandate any assets to be tested annually for impairment. Impairment assessments are required *only if there has been an indicator of impairment.*

Further, , IFRS for SMEs does not permit indefinite life intangible assets. All intangible assets, including goodwill, are considered to have a finite useful life and are required to be amortised, which requires an entity to choose an amortisation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If the entity cannot determine that pattern reliably, it shall use the straight-line method. If the useful life of an intangible asset cannot be established reliably, the life shall be determined based on management's best estimate but shall not exceed ten years.

In closing, a final point to note, is the current project of the IASB, titled 'Goodwill and Impairment', relevant to IFRS. Matters currently being considered by the IASB include the need for an annual impairment test for goodwill and indefinite life intangible assets, and whether these assets should in fact be amortised.

Therefore the differences noted in this discussion may be no longer be relevant in years to come, depending on the outcome of the IASB's project.

Blaise Colyvas CA(SA), JSE Accredited IFRS Advisor

blaise@wconsulting.co.za