

HKFRS / IFRS UPDATE 2013/11

RECOVERABLE AMOUNT DISCLOSURES FOR NON-FINANCIAL ASSETS



Overview

On 19 June 2013 HKICPA issued Amendments to HKAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The same amendments were made to IAS 36 by the International Accounting Standards Board (IASB) on 29 May 2013. This Bulletin explains the background and details of the amendments issued by the IASB. The explanations and details also apply to HKAS 36.

The disclosure requirements of IAS 36 were previously amended by the issue of IFRS 13 *Fair Value Measurement*, in May 2011. The IASB has since noted that the amendments were wider than was originally intended, which was for disclosure of the recoverable amount of an asset for which impairment was recorded or reversed during the reporting period if the recoverable amount is based on fair value less costs of disposal. Instead, the amendments had resulted in a requirement for disclosure of the recoverable amount of a cash generating unit (CGU) where the amounts of goodwill or intangible assets with an indefinite useful life allocated to that CGU are significant in comparison with the entity's total goodwill and intangible assets with an indefinite useful life.

The recently issued amendments result in the following key changes to the disclosures relating to the impairment of non-financial assets:

1. To require the disclosure of the recoverable amount of an asset (or CGU) only in periods in which impairment has been recorded or reversed in respect of that asset (or CGU)
2. To expand and clarify the disclosure requirements when an assets (CGUs) recoverable amount has been determined on the basis of fair value less costs of disposal
3. To require disclosure of the discount rate when an asset (or CGU) has been impaired (or impairment reversed) where the recoverable amount has been determined based on *fair value less costs of disposal* using a present value technique.

The amendments align the disclosures required for the recoverable amount of an asset (or CGU) when this has been determined on the basis of *fair value less costs of disposal* with those required where the recoverable amount has been determined on the basis of *value in use*. The amendment also aligns the IFRS disclosure requirements with US GAAP.

The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively. Early adoption is permitted, however an entity may not apply the amendments to any period (including comparatives) where IFRS 13 has not also been applied.

STATUS

Final Amendment

EFFECTIVE DATE

1 January 2014

ACCOUNTING IMPACT

Changes to the disclosure requirements for impairment

Amendments to IAS 36

Disclosure – recoverable amount of an asset (or CGU)

IAS 36.134(c) currently requires that the recoverable amount of an asset (or CGU) is disclosed (if its carrying amount is significant), irrespective of whether an impairment has been recorded or reversed in respect of that asset (or CGU) during the period.

Under the amendments, this requirement of IAS 36.134(c) has been deleted. As a result the recoverable amount of an asset (or CGU) is required to be disclosed only where IAS 36.130(e) applies, being periods in which an impairment has been recorded or reversed in respect of that asset (or CGU).

Clarification of disclosure requirements – fair value less costs of disposal

An exemption from a requirement to provide disclosures in accordance with IFRS 13 *Fair Value Measurement* has been retained. However, the amendments to IAS 36.130(f) require an entity to make disclosures for fair value less costs of disposal that are consistent with those currently required for an asset (or CGU) where the recoverable amount has been determined on the basis of *value in use*. The amendments also align the IFRS disclosure requirements with US GAAP.

The amended disclosure requirements of IAS 36.130(f) would require disclosure of:

- i. The level of the fair value hierarchy¹ within which the fair value measurement of the asset (cash-generating unit) is categorised in its entirety (without taking into account whether the "costs of disposal" are observable)
- ii. For fair value measurements categorised within Level 2¹ and Level 3¹ of the fair value hierarchy, a description of the valuation technique(s) used to measure *fair value less costs of disposal*. If there has been a change in valuation technique, the entity shall disclose that change and the reason(s) for making it
- iii. For fair value measurements categorised within Level 2¹ and Level 3¹ of the fair value hierarchy, each key assumption on which management has based its determination of *fair value less costs of disposal*. Key assumptions are those to which the asset's (CGU's) recoverable amount is most sensitive
- iv. The discount rate(s) used in the current measurement and previous measurement if *fair value less costs of disposal* is measured using a present value technique.

¹ Refer to IFRS 13 *Fair Value Measurement* for details regarding fair value hierarchy including descriptions of the Level 2 and Level 3 fair value measurement categories.

Effective date

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