Accounting for the impact of covid-19 on impairment of assets under IASs

kadri abdelkader[1]

[1]University of mostaganem,(Algeria), abdelkader.kadri@univ-mosta.dz

Received: 14/03/2021 *Accepted: 18/04/2021* *Published: 05/05/2021*

Abstract:

This study discusses key accounting considerations of impairments for assets related to conditions that may result from the COVID-19 pandemic. This study provides the key considerations that are important when assessing how best to disclose and measure the effects of the COVID-19 pandemic on the impairments of assets when preparing annual reports.

Keywords: impairment; assets; accounting; institution; covid-19.

JEL Classification Codes: M41

1. INTRODUCTION

The COVID-19 pandemic has resulted (at the time of writing) in almost 114 million confirmed cases and about 2,531,542 deaths globally. It has also produced concerns about future social-economic crises and recession.

Considering the dates of the start of the pandemic, the World Health Organization made the first statement on COVID-19 on January 20, 2020, announcing that the Chinese government had informed them on December 31, 2019, of the existence of 44 infections.

The World Health Organization declared Corona Virus (COVID-19) to be a public health emergency on January 30, 2020. As at March 31, 2020, almost the whole of world is in some state of lock down. The governments

***Corresponding author**: kadri abdelkader, **e-mail:** abdelkader.kadri@univ-mosta.dz*

have implemented various measures to contain the spread of the COVID - 19, including restricting the flight operations at the airports, curtailing intercity movements through buses and trains, temporary closing of businesses, schools etc.

The Covid-19 Coronavirus is generating an inevitable negative impact on the economy, the quantification of which is subject to a high level of uncertainty. This fact is forcing many governments to take exceptional restrictive measures and drastic reduction of economic activity to contain the spread.

Changes in the economic activity caused by the pandemic will cause many entities to renegotiate the terms of existing contracts and arrangements. Examples include contracts with customers, compensation arrangements with employees, leases and the terms of many financial assets and liabilities. Entities will need to ensure that the relevant requirements in IFRS Standards are applied. In addition, Impacts such as business and production disruptions, supply-chain interruptions, volatility in the equity and debt markets, reduced revenue and cash flows and other economic consequences also have accounting and financial implications e.g. Impairment under IAS 36 “Impairment of Assets”

Consideration of risks and issues to identify the impacts that could affect the financial report, is the beginning of the journey. While this document focuses on issues of Impairment of Assets that are likely to be the most frequently encountered, many others are certain to arise. As the situation continues to evolve, so too will the consequential accounting issues. For by means what already stated can ask this question:

In light of changing trends and the overall economic outlook, how has COVID-19 impacted accounting for impairment of Assets?

Importance of searching

- The COVID-19 crisis has increased the complexity surrounding organisations’ accountability and governance. The wicked nature of the problems faced by society during the outbreak, their changing nature and their temporality have generated an increasing demand for more material (or even new) practices of account-giving to reflect the unprecedented magnitude of the outcomes;

- The financial reporting impacts of COVID-19 are as varied as the businesses that face them and have given rise to a number of significant economic challenges for entities operating in many industries and sectors. These impacts are likely to have a pervasive impact on the financial reports including impairment of assets, requiring preparers and auditors to challenge underlying assumptions, judgements and disclosures that may not have been considered in detail in the recent past;
- Financial reports are prepared based on a number of fundamental principles and using a variety of assumptions. COVID-19 may impact the application of these fundamental principles and assumptions in ways that may never have been considered by the entity in the past;
- Impairment of assets is one of some of the more common challenges that preparers may face when producing the financial report during the COVID-19 pandemic;
- While accounting research has developed and become more sophisticated, the challenges posed by the COVID-19 pandemic provides both a challenge and need for research in this area to become more impactful.

Targets of Search

- Presentation some of the key areas that companies may need to consider when accounting for impairment of assets;
- Provide some requirement of measuring and disclosing impairment of assets To help navigate this new environment;
- Consider which covd-19 impacts on impairment of assets need addressing and whether and how these should be recognised, measured and disclosed;
- To help preparers of financial reports and auditors navigate the key considerations of accounting for impairment of assets. It seeks to be applicable for economic entities.

Research methodology

This topic was studied by following the descriptive approach to clarify the various concepts as well as the analytical approach in order to facilitate the full understanding of the topic by highlighting all its parts.

2. Measuring the impairment of assets under IAS 36

The International Accounting Standard that addresses the requirements for measuring the impairment of assets is IAS 36 — Impairment of Assets.

IAS 36 shall be applied in accounting for the impairment of all assets, other than: (International Accounting Standards Board(IASB), 2008, p. 1678)

- inventories (under IAS 2 Inventories);
- assets arising from construction contracts (under IAS 11 Construction Contracts);
- deferred tax assets (under IAS 12 Income Taxes);
- assets arising from employee benefits (under IAS 19 Employee Benefits);
- financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement;
- investment property that is measured at fair value (under IAS 40 Investment Property);
- biological assets related to agricultural activity that are measured at fair value less estimated point-of-sale costs (under IAS 41 Agriculture);
- deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of IFRS 4 Insurance Contracts; and
- Non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Therefore, IAS 36 applies to (among other assets): (Deloitte, 2020)

- land;
- buildings;
- machinery and equipment;

- investment property carried at cost;
- intangible assets;
- goodwill;
- investments in subsidiaries, associates, and joint ventures carried at cost;
- Assets carried at revalued amounts under IAS 16 and IAS 38.

This Standard applies to financial assets classified as: (International Accounting Standards Board (IASB), 2014, p. 10)

(a) Subsidiaries, as defined in IFRS 10 Consolidated Financial Statements;

(b) Associates, as defined in IAS 28 Investments in Associates and Joint Ventures; and

(c) Joint ventures, as defined in IFRS 11 Joint Arrangements.

2.1 Indications of impairment

When indicators require an entity to conduct an impairment test, the entity must determine whether it records an impairment loss by comparing the carrying amount of an asset with its recoverable amount. (International Accounting Standards Board(IASB), 2009, p. 12), The objective of this is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. (Ducasse, Anne, Ouvrard, & Christian, 2005, p. 129), An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired (International Accounting Standards Board(IASB), 2013, p. 1), when the carrying amount of an asset exceeds its recoverable amount, an entity is required to recognise an impairment loss. (Grant Thornton, 2014, p. 3)

Irrespective of whether there is any indication of impairment, an entity shall also: (International Accounting Standards Board (IASB), 2014, p. 13)

(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.

The ability of an intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use. Therefore, an entity is required to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use. (International Accounting Standards Board(IASB), 2008, p. 1681)

In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum, the following indications: (Ministry Of Corporate Affairs - Government of India, 2020, pp. 8, 9)

2.1.1. External sources of information

(a) There are observable indications that the asset's 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 asset's value in use and decrease the asset's recoverable amount materially.

(d) The carrying amount of the net assets of the entity is more than its market capitalisation.

2.1.2. Internal sources of information

(e) Evidence is available of obsolescence or physical damage of an asset. (f) 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, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

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

Dividend from a subsidiary, joint venture or associate

(h) For an investment in a subsidiary, joint venture or associate, the investor recognises a dividend from the investment and evidence is available that: (Accounting Standards Board(AcSB), 2020, p. 6)

(i) The carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or

(ii) The dividend exceeds the total comprehensive income of the subsidiary, joint venture or associate in the period the dividend is declared.

2.2 Measuring recoverable amount

Recoverable amount is defined in IAS 36 as the higher of an asset's fair value less costs to sell and its value in use (International Federation of Accountants (IFAC), 2020, p. 708).

2.2.1. Fair value less costs to sell

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal (United Nations, 2016, p. 6). And a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. (Chartered Professional Accountants of Canada (CPA Canada), 2013, p. 7)

The best evidence of an assets fair value less cost to sell is a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that are directly attributable to the disposal of the asset. If there is no binding sale agreement, but an asset is traded in an active market, the asset's market price less costs of disposal would provide the best evidence of fair value less cost to sell (PKF International, 2017, p. 3). The appropriate market price is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction may provide a basis from which to estimate fair value less costs to sell, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the estimate is made.

27 If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at the end of the reporting period, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity considers the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately. 28 Costs of disposal, other than those that have been recognised as liabilities, are deducted in determining fair value less costs to sell. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in IAS 19) and costs associated with reducing or reorganising a business following the disposal of an asset are not direct incremental costs to dispose of the asset. (International Accounting Standards Board(IASB), 2008, p. 1685)

<u>2.2.1. Value in use</u>

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. (International Accounting Standards Board (IASB), 2014, p. 12). The following elements shall be reflected in the calculation of an asset's value in use: (a) an estimate of the future cash flows the entity expects to derive from the asset;

(b) Expectations about possible variations in the amount or timing of those future cash flows;

(c) The time value of money, represented by the current market risk-free rate of interest;

(d) The price for bearing the uncertainty inherent in the asset; and

(e) Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from: (International Accounting Standards Board(IASB), 2009, p. 21)

(a) a future restructuring to which an entity is not yet committed, or

(b) Improving or enhancing the asset's performance.

Because the discount rate is determined on a pre-tax basis, future cash flows are also estimated on a pre-tax basis. Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation (International Federation of Accountants (IFAC), 2020, p. 864).

IAS 36 permitted risk adjustments to be reflected either in the cash flows or in the discount rate (International Accounting Standards Board(IASB), 2008, p. 1735). However, Discount rates do not reflect risks for which the future cash flows have already been adjusted or else the risks are 'double counted' (BDO network, 2020, p. 6). Otherwise, the effect of some assumptions will be double-counted. (International Accounting Standards Board(IASB), 2008, p. 1734)

In measuring value in use an entity shall: (The Hong Kong Institute of Certified Public Accountants , 2018, pp. 18, 19)

(a) Base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence.

(b) Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.

(c) Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs to sell, except that, in estimating those net cash flows: (International Accounting Standards Board(IASB), 2008, p. 1687)

(a) An entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used.

(b) The entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.

The appropriate discount rate for the cash flows being measured must be a pre-tax rate (rates) that reflect(s) current market assessments of: (a) the time value of money; and (b) the risks specific to the asset for which the future cash flow estimates have not been adjusted (Véronique Blum & Pierre Thérond, 2019, p. 7). This represents the return investors would require if they were to choose an investment that would generate cash flows of the same amounts, timing and risk profile as those the entity expects from the asset. (Chartered Professional Accountants of Canada (CPA Canada), 2013, p. 24). This rate is estimated from the rate implicit in current market transactions for similar assets or from the weighted average cost of capital of a listed entity that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review. (International Accounting Standards Board (IASB), 2014, p. 49)

When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. As a starting point in making such an estimate, the entity might take into account the following rates: (a) the entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model; (b) the entity's incremental borrowing rate; and (c) other market borrowing rates. However, these rates must be adjusted: (a) to reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and (b) to exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted. Consideration should be given to risks such as country risk, currency risk and price risk. (Véronique Blum & Pierre Thérond, 2019, p. 7)

2.3 Other requirements for impairment of assets

- sometimes it will not be possible to measure fair value less costs of disposal because there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions. In this case, the entity may use the asset's value in use as its recoverable amount. (The Hong Kong Institute of Certified Public Accountants , 2018, p. 16)
- If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs to sell, the asset's fair value less costs to sell may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible. (International Federation of Accountants (IFAC), 2020, p. 858)
- Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless either: (European Commission (EC), 2011, p. 12)

(a) The asset's fair value less costs of disposal is higher than its carrying amount; or

(b) The asset's value in use can be estimated to be close to its fair value less costs of disposal and fair value less costs of disposal can be measured.

- An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in IAS 16 Property, Plant and Equipment). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard. (International Accounting Standards Board(IASB), 2013, p. 2)
- An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order: (a) first, to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units); and (b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units) (PKF International, 2017, pp. 5, 6). However, an entity shall not reduce the carrying amount of an asset below the highest of: (a) its fair value less costs to sell (if determinable); (b) its value in use (if determinable); and (c) zero. The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units). (International Accounting Standards Board(IASB), 2013)
- The distinctive characteristics of corporate assets such as the building of a headquarters or a division of the entity are that they do not generate cash inflows independently of other assets or groups of assets and their carrying amount cannot be fully attributed to the cash-generating unit under review (Australian Accounting Standards Board(AASB), 2007, p. 36). As a consequence, if there is an indication that a corporate asset may be impaired, recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs. In testing a cash-generating unit for impairment, an entity shall identify all the corporate assets that

relate to the cash-generating unit under review. If a portion of the carrying amount of a corporate asset: (a) can be allocated on a reasonable and consistent basis to that unit, the entity shall compare the carrying amount of the unit, including the portion of the carrying amount of the corporate asset allocated to the unit, with its recoverable amount. Any impairment loss shall be recognised. (b) cannot be allocated on a reasonable and consistent basis to that unit, the entity shall: (i) compare the carrying amount of the unit, excluding the corporate asset, with its recoverable amount and recognise any impairment loss; (ii) identify the smallest group of cash-generating units that includes the cash-generating unit under review and to which a portion of the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis; and (iii) compare the carrying amount of that group of cash-generating units, including the portion of the carrying amount of the corporate asset allocated to that group of units, with the recoverable amount of the group of units. Any impairment loss shall be recognised. (PKF International, 2017, p. 5)

- When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognize a liability if, and only if, that is required by another Standard. (Australian Accounting Standards Board(AASB), 2007, p. 26)

2.4 Reversing an impairment loss

2.4.1. Indications of reversing an impairment loss

An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. (International Accounting Standards Board(IASB), 2013)

In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications: (International Federation of Accountants (IFAC), 2020, pp. 875, 876)

2.4.1.1 External sources of information

(a) The asset's market value has increased significantly during the period;

(b) significant changes with a favourable 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 the asset is dedicated;

(c) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially;

2.4.1.2 Internal sources of information

(d) significant changes with a favourable 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, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs; and

(e) Evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

2.4.2. Recognising the Reversing an impairment loss

A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for the individual assets within the cash-generating unit. In allocating the reversal of the impairment, the carrying amount of an asset shall not be increased above the lower of: (PKF International, 2017, p. 6)

(i) Its recoverable amount (if determinable); and

(ii) The carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill. (The Hong Kong Institute of Certified Public Accountants , 2018, p. 35)

An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the ‘unwinding’ of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount. (European Commission (EC), 2011, p. 20)

3. The impact of COVID-19 on measuring and disclosing impairment of Assets

3.1 The impact of COVID-19 on measuring impairment of assets

IAS 36 “Impairment of Assets” requires an entity to assess, at the end of each reporting period, whether there is any impairment for an entity’s non-financial assets. For goodwill and intangible assets with indefinite useful lives, the standard requires an annual impairment test and when indicators of impairment exist. For other classes of assets within the scope of the standard, an entity is required to assess at each reporting date whether there are any indications of impairment. The impairment test has to be carried out only if there are such indications. (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 3)

The scope of assets subject to the requirements in IAS 36 is broad. It includes property, plant and equipment (carried at cost or revalued amount), intangible assets (carried at cost or revalued amount), goodwill, right-of-use assets (if carried at cost), investment property (if carried at cost), biological assets (if carried at cost) and investments in associates and joint ventures accounted for using the equity method (deloitte, 2020, p. 8).as follows: (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 45)

- property, plant and equipment (IAS 16), right-of-use assets (IFRS 16) and investment property carried at historical cost (IAS 40), financial assets classified as subsidiaries (IFRS 10) associates (IAS 28) and

Joint arrangements (IFRS 11) all of which only require assessment if indicators of impairment exist.

- Goodwill (IFRS3) and intangible assets with an indefinite useful life (IAS 38), must be assessed for impairment at least annually, regardless of any impairment indicators. It should be noted that if the impairment test was conducted earlier during the year and there are indicators of impairment at the year-end, the impairment test must be reperformed at the year-end.

Note that interests in associates and joint ventures not subject to the equity method, such as loans, are subject to the impairment requirements in IFRS 9 *Financial Instruments*. In an entity's separate financial statements, investments in subsidiaries, associates and joint ventures (other than those accounted for in accordance with IFRS 9) are also subject to the requirements of IAS 36. (deloitte, 2020, p. 8)

For assets outside the scope of IAS 36, other standards require that they too are assessed to ensure that the amounts recognised in the balance sheet do not exceed their recoverable amount. These standards contain more detailed guidance on the assessment of recoverable amounts for those specific asset categories and prescribe the related disclosures when balances are reassessed or written down. (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 46)

IAS 36 sets out a number of indicators that need to be considered when assessing whether there is any indication of impairment. If there is any such indication, IAS 36 requires the recoverable amounts of assets to be assessed, and if this amount is less than the asset's carrying amount, an impairment loss must be recognised. (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 45)

IAS 36 *Impairment of Assets* seeks to ensure that an entity's assets are carried at not more than their recoverable amount (i.e. the higher of fair value less costs of disposal and value in use). IAS 36 does not require an entity to monitor constantly assets (including goodwill) for indication of impairment. Instead, IAS 36 requires entities to assess at the end of each reporting date (interim and annual) whether there is any indication that assets may be impaired and if such an indication exists to perform an impairment test. In addition, IAS 36 requires an entity to test intangible assets with an indefinite useful life, intangible assets not yet available for use and goodwill for impairment annually, at the same time every year. The test is conducted for a ‘cash-generating unit’ (CGU) when an asset does not generate cash inflows that are largely independent of those from other assets. The CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. (deloitte, 2020, p. 8)

These assessments, which involve forecasting budgets and cash flows and assessing appropriate discount rates, could be complex in the current uncertain and changing economic conditions. (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 45)

Given the current economic circumstances, there may well be indicators of impairment at the reporting date that trigger testing of these assets again for impairment. (Kegalj, 2020, p. 2)

For many entities in many different industries and sectors, the COVID-19 pandemic is an example of an external event that provides an indicator of impairment of certain assets under IAS 36. (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 45)

Entities will need to assess whether the impact of COVID-19 has potentially led to an asset impairment. Financial performance, including estimates of future cash flows and earnings, may be significantly affected by the direct or indirect impacts of recent and ongoing events. (deloitte, 2020, p. 8)

Indicators of impairment include (but are not limited to):

- Significant changes with an adverse effect on the entity that have taken place during the period, or will take place in the near future in the market or economic environment in which the entity operates. (deloitte, 2020, p. 8)

- An entity will also need to consider the extent to which, or the manner in which, an asset is used or is expected to be used (for example, an asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs or plans to dispose of an asset before the previously expected date). (deloitte, 2020, p. 8)
- Factors resulting from the COVID-19 pandemic which indicate that the carrying amount of a CGU may not be recoverable may include (1) decreased demand for the entity's products or service; (2) increased costs/business interruptions due to supply chain issues; (3) cancellations or postponements of orders by customers; (4) need to provide significant concessions to customers; (5) significant customers experiencing financial difficulties or cash flow difficulties. These factors may indicate that the entity may be forced to liquidate some of its assets rapidly. (deloitte, 2020, p. 8)
- Given recent stock market price declines, the carrying amount of net assets of an entity may exceed its market capitalisation. IAS 36 notes that this situation is a further indicator of impairment (deloitte, 2020, p. 9)
- The impact of reduced economic activity, lock downs and lower revenues are likely to affect many entities and might also indicate impairment. (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 3)
- The most relevant impact is the existence of indicators of impairment of these assets, as a result of the review of the business plans and budgets prepared by the Company after the COVID-19 crisis. (Partner, Main accounting implications of the impact of COVID-19, 2020, p. 3)
- Temporarily ceasing operations or suffering an immediate decline in demand or prices and profitability are clearly events that might indicate impairment. Therefore, entities should assess for each of their nonfinancial assets, where there is an indicator of impairment such as fall of stock and commodity prices, manufacturing plant shutdowns, shop closures, reduced demand and selling prices for goods and services, etc. (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 3)

As a result of the impact of COVID-19, certain entities may need to perform an impairment assessment of assets in addition to the requirement to perform an impairment test at least annually of goodwill and intangible assets with an indefinite useful life. (deloitte, 2020, p. 9)

Entities often rely on discounted cash flows in estimating recoverable amounts. Careful consideration of the cash flow projections, growth rate(s) and discount rate(s) will be critical in terms of the supportability and reasonableness of the calculations given the current market conditions. In particular, the projected cash flows should be based on what could have reasonably been known at the reporting date of the conditions that existed at that date. However, in a value in use calculation, they should not reflect the effects of restructuring plans that are not committed at the reporting date as this would be inconsistent with the requirement to determine the value in use of the CGU in its current condition at the end of the reporting period. Similarly, the benefits of government assistance should be reflected as cash inflows only if there is sufficient understanding at the reporting date of the government assistance programme, so that reasonable supportable estimates can be developed of the amounts to which the entity is expected to be entitled. Depending on the range of possible outcomes for these expected government programmes, it may be more appropriate to use multiple scenarios and a probability-weighted expected value approach to arrive at management's best estimate of future cash flows and recoverable amount, as discussed further below. Factoring in uncertainties about future cash flows in an impairment analysis will require significant judgement. The assumptions made and the probabilities assigned to cash inflows associated with expected government assistance and whether and to what extent the entity will be eligible must be reasonable and supportable based on publicly available information at the reporting date and relevant information obtained after that date that reflects *adjusting* post balance sheet events as defined in IAS 10. (deloitte, 2020, p. 9)

In these uncertain times, management may face significant challenges in preparing the budgets and forecasts necessary to estimate the recoverable amount of an asset (or CGU). Management may determine that using an expected cash flow approach is the most effective means of reflecting the uncertainties of the COVID-19 pandemic in its estimates of recoverable amount. This approach reflects all expectations about possible cash flows instead of the single expected outcome. For example, a cash flow might be CU100, CU200 or CU300, with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively, giving an expected cash flow of CU220, i.e. (CU100 × 10%) + (CU200 × 60%) + (CU300 × 30%). While an expected cash flow approach is highly dependent on assigning probabilities to estimates of future cash flows, such judgements on the inputs may nevertheless be more transparent and more readily tied to underlying commercial expectations than the addition of a "COVID-19" risk premium to the discount rate that may be more arbitrary and for which there is no evidential base to support the quantum of the adjustment. IAS 36:23 indicates that estimates, averages and other computational short-cuts could also be used to provide reasonable approximations of more detailed computations. However, the use of such approximations should be carefully assessed taking into account the level of risk that an impairment loss exists for the assets being tested. (deloitte, 2020, p. 9)

In situations where an entity has concluded the existence of impairment indicators and has decided to carry out the assessment of recoverable value based on value in use (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 3), Key principles to bear in mind are: (deloitte, 2020, p. 9)

- the assumptions and cash flow forecasts used to test for impairment should be updated to reflect the potential impacts of the COVID-19; (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 3)
- The factors used to determine the discount rate, however the recoverable amount is determined, should be revised to reflect the impact of the COVID - 19 and the measures taken to control it. Management should ensure that appropriate risk is reflected in either the cash flows or the discount rate. (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 3)
- Estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question. (deloitte, 2020, p. 9)
- Estimated cash flows should reflect a range of possible outcomes, rather than a single expected outcome (deloitte, 2020, p. 9). i.e. an expected cash flow approach (multiple probability-weighted scenarios) might be a

better way to estimate recoverable amount than a single predicted outcome to capture the increased risk and uncertainty; (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 3)

- Cash flow projections should reflect the conditions in existence at the reporting date and be based on the most recent financial budgets/ forecasts, approved by management at the appropriate level of authority, covering a maximum period of five years, unless a longer period can be justified. In these uncertain times, reliable detailed budgets may only be available for a shorter period. (deloitte, 2020, p. 9)
- Projections of cash flows beyond the period covered by the most recent budgets/forecasts should be estimated by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified based on objective information about patterns over a product or industry lifecycle. This growth rate should not be overly optimistic and should not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified. In some cases, it may be appropriate for the growth rate to be zero or negative. (deloitte, 2020, p. 9)
- Future cash flows should be estimated for the asset in its current condition and should not include estimated future cash inflows or outflows expected to arise from improving or enhancing the asset's performance or future restructuring to which the entity is not yet committed (when the recoverable amount is determined as the value in use). (deloitte, 2020, p. 9)
- The entity's weighted average cost of capital (WACC) may be used as a starting point for estimating a market discount rate, but this should then be adjusted to reflect the way the market would assess the cash-generating unit's cash flows (unless that risk is already included in the estimated cash flows). When considering the underlying individual inputs into a traditional capital asset pricing model ("CAPM") consideration must be given to the interplay between inputs (i.e. the risk free rate assumption and the equity risk premium) and how the changes

in some inputs may be offset by the change in other inputs. The expectation of a falling risk free rate environment does not necessarily translate into a lower cost of capital. (deloitte, 2020, p. 9)

– Care should be taken as to consistency of the data being prepared and compared to avoid double counting or omission of some data. (deloitte, 2020, p. 9)

COVID-19 related considerations in respect of some of these assets could include: (The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia., 2020, p. 45)

- **Property plant and equipment and right-of-use assets** – changes in business activity may impact the value of the equipment, any residual values or its useful life.
- **Assets including intangible assets and goodwill** – the value of future cash flows supporting these valuations in the current circumstances may be more difficult to estimate and require more considered attention.

If there is indication that the asset may be impaired, the underlying facts should be kept in mind when performing the annual reviews of the useful life of the asset, the depreciation or amortisation method used and the estimated residual value. These items may need to be adjusted even if no impairment loss is recognised. (deloitte, 2020, p. 9)

3.2 The impact of COVID-19 on disclosures for impairment of assets

Information about asset impairments will be critical in helping users of the financial statements understand the impact of the COVID-19 pandemic on an entity's financial performance and position. Disclosure of the key assumptions used to determine the recoverable amount, together with a description of management's approach to determining the value assigned to each key assumption, must be provided in sufficient detail. These include assumptions on the duration and intensity of effects of the suspension of activities and of the recovery phase. (deloitte, 2020, p. 9)

IAS 36 provides relevant disclosures to be considered in this regard. (Kegalj, 2020, p. 2)

Key assumptions used in performing impairment tests are likely to represent a source of significant estimation uncertainty and therefore the information required by IAS 36 may need to be supplemented by the information required by IAS 1, such as a sensitivity analysis.

Management should also consider specifically the disclosure requirements under IAS 36 to disclose assumptions and sensitivities in the context of testing goodwill and intangible assets having an indefinite life. The disclosure requirements for other non-financial assets is applicable only when an impairment is recorded thereof. Specific consideration should also be given to the estimation uncertainty in the context of the COVID - 19. (Accountants, A. F. Ferguson & Co. Chartered, 2020, p. 3)

Companies apply the same criteria when testing for impairment of financial assets (Kegalj, 2020, p. 3)

IFRS 7 Financial Instruments: Disclosures provides relevant disclosures to be considered in this regard (Kegalj, 2020, p. 3)

4. CONCLUSION

The coronavirus 2019 (COVID-19) pandemic is affecting economic and financial markets with entities experiencing conditions often associated with a general economic downturn. This includes, but is not limited to, financial market volatility and erosion, deteriorating credit, liquidity concerns, further increases in government intervention, increasing unemployment, broad declines in consumer discretionary spending, increasing inventory levels, reductions in production because of decreased demand, layoffs and furloughs, and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn which could have a prolonged negative impact on an entity's impairment of assets. This study is structured to address the impact of COVID-19- related issues on each key element of accounting for impairment of assets, in the order in which we might expect them to be as helpful as possible to the wide variety of entities preparing annual reports. Ultimately, we can extract this outcomes:

- COVID-19 has created unique challenges in the operation and oversight of entities;

- The financial reporting impacts of COVID-19 are as varied as the businesses that face them and have given rise to a number of significant economic challenges for entities operating in many industries and sectors;
- In the current environment, the quality of financial reports and related disclosures is more important than ever for markets and investors;
- COVID-19 is having an unprecedented impact on the economic outlook for the domestic and global economy. For the first time, many entities will be required to consider their impairment of assets in more detail;
- Entities with businesses adversely affected by the COVID-19 pandemic should focus on reporting values of impairment of assets;
- directors, management and auditors may need to make difficult judgements on values of impairment of assets;
- Doing effectively the accounting for impairment of assets will be critical to ensuring that the financial report clearly communicates the entity's financial performance and position when reporting during periods impacted by COVID-19;
- It is possible that the accounting for impairment of assets will be subject to a greater degree of change than in previous years as new accounting policies may need to be introduced and existing accounting policies reviewed, estimates and uncertainties identified and determined, new disclosures developed and considerations about impairment of assets addressed;
- The wicked nature of the problems faced by society during the outbreak, their changing nature and their temporality have generated an increasing demand for more material (or even new) practices of account-giving to reflect the unprecedented magnitude of the outcomes;
- Like all such studies the information contained within it is general in nature. It should be supplemented by guidance provided by

government regulators and standard setters, as well as tailored advice from professional advisers.

5. Bibliography List:

BDO network. (2020). IMPAIRMENT IMPLICATIONS OF COVID-19 (IAS 36 IMPAIRMENT OF ASSETS). Belgique: BDO .

Accountants, A. F. Ferguson & Co. Chartered. (2020). Accounting implications of the impacts of COVID - 19 An Overview of IFRS Requirements. KARACHI▪LAHORE▪ ISLAMABAD: A. F. Ferguson & Co.

Accounting Standards Board(AcSB). (2020). AcSB COVID-19 Resource,Impairment of Non-Financial Assets. Canada: AcSB.

Australian Accounting Standards Board(AASB). (2007). Australian Accounting Standard AASB 136 Impairment of Assets. Melbourne Victoria: AASB .

Chartered Professional Accountants of Canada (CPA Canada). (2013). Guide to International Financial Reporting Standards in Canada IAS 36 Impairment of Assets. CANADA: CPA CANADA.

Deloitte. (2020). IAS 36 — Impairment of Assets. Consulté le 2 26, 2021, sur iasplus: https://www.iasplus.com/en/standards/ ias/ias36

deloitte. (2020). IFRS in Focus-Accounting considerations related to the Coronavirus 2019. Deloitte Global.

Ducasse, E., Anne, J., Ouvrard, S., & Christian, P. d. (2005). Normes comptables internationales IAS/IFRS - Avec exercices d'application corrigés. Bruxelles: De Boeck.

European Commission (EC). (2011). EUROPEAN UNION ACCOUNTING RULE 18 IMPAIRMENT OF ASSETS. Bruxelles: EC.

Grant Thornton. (2014). Impairment of Assets: a guide to applying IAS 36 in practice. london: Grant Thornton International.

International Accounting Standards Board (IASB). (2014). International Accounting Standard 36 Impairment of Assets. Saudi Organization for Certified Public Accountants (SOCPA).

International Accounting Standards Board(IASB). (2013). IAS 36 Impairment of Assets Technical Summary. London: IASC Foundation.

International Accounting Standards Board(IASB). (2009). IFRS Foundation: Training Material for the IFRS® for SMEs, Module 27 – Impairment of Assets. london: IFRS Foundation.

International Accounting Standards Board(IASB). (2008). International Financial Reporting Standards(IFRSs). London: IASB.

International Federation of Accountants (IFAC). (2020). Handbook of International Public Sector Accounting Pronouncements (Vol. 1). New York: IFAC.

Ministry Of Corporate Affairs - Government of India. (2020). INDIAN ACCOUNTING STANDARD 36 IMPAIRMENT OF ASSETS. India: MCA.

Partner, R. &. (2020). Main accounting implications of the impact of COVID-19. Madrid: Rödl & Partner.

PKF International. (2017). a c c o u n t i n g s u m m a r y 2 0 1 7 - 0 7 IAS 36 Impairment of Assets. United Kingdom: PKF International.

The Australian Institute of Company Directors (AICD), Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia. (2020). IMPACTS OF COVID-19 ON ANNUAL REPORT DISCLOSURES A guide for directors, preparers and auditors. Australia: Australian Institute of Company Directors, Chartered Accountants Australia and New Zealand and CPA Australia.

The Hong Kong Institute of Certified Public Accountants . (2018). Hong Kong Accounting Standard 36 Impairment of Assets. Hong Kong: HKICPA.

United Nations. (2016). Corporate Guidance for International Public Sector Accounting Standards Impairment of Non-Cash Generating Assets . New York: UN.

Véronique Blum & Pierre Thérond. (2019). Discount Rates in Accounting: How Practitioners Depart the IFRS Maze Towards the End of Determinism in Accounting. 9èmes Etats Généraux de la recherche comptable (p. 13). france: L'Autorité des normes comptables (ANC) .

Kegalj, G. (2020). What is the impact of COVID-19 on interim financial statements? KPMG IFRG Limited: KPMG IFRG Limited.