Thematic Review – Impairment of non-financial assets

The FRC will conduct a thematic review of companies' disclosures relating to the impairment of non-financial assets to encourage more transparent reporting of

- the events and circumstances that led to the recognition or reversal of an impairment loss, and
- the basis on which the directors concluded that the carrying amounts of non-financial assets are recoverable.

Certain sectors of the economy are currently under pressure which may indicate that the carrying amount of a non-financial asset, such as property, plant and equipment, might be impaired. In these circumstances, IAS 36 requires the recoverable amount of the asset to be estimated. This is in addition to the annual testing of goodwill and intangible assets with indefinite useful lives for impairment.

The FRC often asks companies, as part of its routine monitoring activity, for additional information about their impairment testing process because disclosures required by IAS 36 either have not been given or are not sufficiently clear for users of the accounts to gain an understanding of the outcome of that process. Disclosures around the key assumptions made by management are highly relevant because they give investors and other users an insight into any underlying level of optimism.

The FRC has identified specific areas where improvements can be made and expects companies to

- disclose, in addition to growth and discount rates, the key assumptions used to estimate recoverable amount such as revenue growth, margins or operating costs,
- identify, where material, those assumptions that are specific for an individual cash generating unit (CGU'), rather than presenting an average value or a range for an assumption that covers multiple CGUs,
- clearly explain whether changes in key assumptions are reasonably possible, including where the combined impact of varying individual assumptions, might result in an impairment,
- explain for what period growth rates are applied, why certain growth rates were used and significant changes in growth and discount rates,
- explain, if applicable, how a post-tax discount rate has been derived from a pre-tax rate and to disclose both rates, and
- indicate whether a parent company has tested its investments in subsidiaries, associates and joint ventures for impairment when its net assets are greater than the group's and / or its market capitalisation.

When a material impairment expense has been recognised or reversed, section 414C of the Companies Act 2006 requires the strategic report to refer to this and give additional explanations of amounts included in the company's annual accounts.

Notes:

1. Paragraph 130 of IAS 36 requires companies to disclosure certain information when an impairment loss has been recognised or reversed during the period for an individual asset (including goodwill) or a cash-generating unit.

2. When a company's consolidated balance sheet includes goodwill or intangible assets with indefinite useful lives paragraphs 134 and 135 of the standard set out the information that the entity is required to disclose.