



# IAS 36

## IMPAIRMENT & CORONAVIRUS

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### What is an impairment?

Under IAS 36: An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. The main objective of the standard is to make sure that assets are not recorded at more value than fair value less cost of disposal or value in use. If assets are recorded at higher amount than fair value or value in use, then the asset is called impaired and impairment shall be recorded.

### On the Basis of IAS 36 Impairment covers the below assets:

- Land & Building
- Property, plant and equipment
- Investment property at amortized cost
- Intangibles including goodwill
- Assets at revalued amounts as per IAS 16 and IAS 38

### What is the frequency of conducting the impairment test?

IAS explains the timing of test for the impairment of assets. To cope this, assets are divided into two categories; first those which have to be tested for impairment annually and second those which has to be tested only when there is indication of impairment.

Assets to be tested annually includes:

- Intangible Assets with indefinite useful life
- Intangible asset not yet held for use
- Goodwill

Those assets should be tested for impairment annually irrespective of any indication of impairment so COVID-19 is not actually having any impact on the trigger point of these assets although it has affected the calculation of impairment.

All other assets should be tested only if there is indication of impairment. Paragraph 9 to 16 of the IAS explains multiple indicators of internal and external sources which organizations can consider for the potential trigger points of impairment (excluding asset on which IAS 36 doesn't apply).

### Indicators of impairment

**Internal Sources:** Organizations already established budgets and forecasts are changing due to change in demand and production of goods. Less inflows of revenue, committed/fixed outflows (expenses), less sources of funding from market and already established terms of long supplier contracts are posing serious liquidity issues to multiple organizations so there are plan of discontinue or restructure many operations. Any one of these internal elements is enough to call for impairment testing of related asset.

**External Sources:** These is less demand of goods and concurrently less demand of equipment which ultimately has reduced the market value of many assets. Economy has jump into recession and in many cases, it is not too far when volatile capital markets shall crash for some companies and their Net assets carrying value shall be standing higher than their total market capitalization.

Impairment is usually tested for the individual assets. in case it is not possible to determine the impairment of individual asset then it shall be determined for a cash generating unit.

### Should we consider Covid-19 as an indicator of impairment test?

**Covid-19 impacts apply on internal and external indicators.**

It is clear now that trigger point for impairment of assets has occurred and so the organizations who have to issue their financials soon shall need to perform an impairment test. The challenge which organizations are facing today is of accurate future forecasts and budgets. COVID-19 is posing an unprecedented macro-economic scenario where at this stage nobody can confirm on concrete terms what will be graph of economy, shall it start rising sooner or later?!

### Briefly about us

MOORE, abc established in 2008 is one of the leading firms in the country providing financial and tax accounting and reporting services, valuation, audit and related services covering all regions of Georgia.

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