



## IAS 36- Reversal of Impairment loss



## Reversal of an impairment loss

In some industries, Hotels and hospitality for example, there might be some indication that an impairment loss has reversed. If that is the case, then management is required to reassess the recoverable amount of the previously impaired asset or CGU. In estimating the recoverable amount, management needs to reassess and reconsider its assumptions to reflect the current outlook for the future of the CGU.

If the recoverable amount has increased, then the impairment loss may have partially or fully reversed, considering the fact that goodwill impairment loss is non-reversible. For assets carried at cost, the reversal is recognized in the profit or loss. [IAS 36.114, 119, IFRIC 10.8]

### What triggers an impairment reversal?

IAS 36 - Impairment of Assets applies to a variety of non-financial assets including property, plant and equipment (PPE), right-of-use assets, intangible assets and goodwill, investment properties carried at cost and investments in associates and joint ventures. [IAS 36.2, 4]

Management needs to consider favorable changes in circumstances since the last impairment test resulting in an impairment loss. Impairment reversal indicators include:

- Favorable changes in the market;
- Favorable changes in the economic conditions;
- CGU or Assets' performance better than expected (or will outperform the previous plan);
- FMVLCS increased significantly; and
- Decrease in the interest rates or market returns. [IAS 36.111]

The maximum amount of possible impairment loss reversal to an individual asset is limited to the amount required to restore the asset to its pre-impairment carrying amount, less any subsequent depreciation or amortization that would have been recognized (i.e. based on the asset's pre-impairment depreciated/amortized carrying amount). [IAS 36.117]

When reversing an impairment loss on a CGU, the impairment loss reversal is allocated to the CGU's assets (other than goodwill) on a pro rata basis. However, the carrying amount of any asset within the CGU is not increased above the lower of that asset's:

- Recoverable amount; and
- Carrying amount (net of amortization or depreciation), had no impairment loss been recognized for the asset in prior periods.

## Disclosures

Disclosures related to impairment testing continue to be important. It is important that management provides transparent and meaningful disclosures to give users relevant information on impairment of assets and reversals thereof. [IAS 36.126(b), 126(d), 129(b), 130–132, 134]

Considering current circumstances and the spread of COVID around the globe, there is substantial uncertainty around the baseline growth, especially beyond 2021. While some industries are still suffering, others are showing signs of potential acceleration in economic activity. Management need to consider disclosing how this uncertainty is factored into the calculation of the recoverable amount.

IAS 1 Presentation of Financial Statements requires disclosure of the key assumptions that a company makes about the future and other major sources of estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. [IAS 1.125, 129]

Please contact us if you have any inquiries, we are happy to provide more detailed insights on a case-by- case basis.

**FINSIGHTS Consulting Team**

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