

What Is Impairment Testing?

Worksheet

An asset is impaired when its carrying amount exceeds its recoverable amount (the higher of fair value less costs of disposal and value in use); the impairment loss is the difference, and it may be reversed later if the recoverable amount improves - except for goodwill, which can never be reversed.

$$\text{Impairment Loss} = \text{Book Value} - \text{Recoverable Amount}$$

Questions

- An asset is impaired when...?
 - Carrying amount > recoverable amount
 - Carrying amount < recoverable amount
 - Fair value > value in use
 - The asset is fully depreciated
- Carrying amount = \$500,000, FVLCD = \$410,000, VIU = \$420,000. What is the impairment loss?
 - \$80,000
 - \$90,000
 - \$70,000
 - \$0
- Which type of impairment loss can never be reversed?
 - Goodwill
 - Machinery
 - Buildings
 - Inventory
- What is recoverable amount?
 - The higher of fair value less costs of disposal and value in use
 - The original purchase cost
 - The lower of cost and market value
 - Net book value after depreciation
- A machine has a carrying amount of \$500,000. Its fair value less costs of disposal is \$410,000 and its value in use is \$420,000. What is the impairment loss?
- A building has a carrying amount of \$1,200,000. Its fair value less costs of disposal is \$1,150,000 and its value in use is \$1,300,000. Is there an impairment?
- Equipment was impaired last year from a carrying amount of \$300,000 down to a recoverable amount of \$250,000 (a \$50,000 loss). This year its recoverable amount has recovered to \$290,000, and the carrying amount would have been \$295,000 if no impairment had ever been recognized (after normal depreciation). How much reversal is recognized?
- Define: What triggers an impairment loss?
- Define: What is recoverable amount?
- Define: What is value in use?

Answer Key

1. A) Carrying amount > recoverable amount - Impairment is recognized whenever carrying amount exceeds recoverable amount.
2. A) \$80,000 - Recoverable amount = $\max(410,000, 420,000) = 420,000$; loss = $500,000 - 420,000 = \$80,000$.
3. A) Goodwill - IAS 36 specifically prohibits reversing a goodwill impairment loss.
4. A) The higher of fair value less costs of disposal and value in use - Recoverable amount is defined as the higher of the two exit values: FVLCD and VIU.
5. Recoverable amount = higher of FVLCD and VIU = $\max(410,000, 420,000) = \$420,000$ Impairment loss = Carrying amount - Recoverable amount = $500,000 - 420,000 = \$80,000$
6. Recoverable amount = $\max(1,150,000, 1,300,000) = \$1,300,000$ Since recoverable amount (\$1,300,000) exceeds carrying amount (\$1,200,000), no impairment is recognized
7. Uncapped reversal = $290,000 - 250,000 = \$40,000$ Cap = depreciated carrying amount without the original impairment = \$295,000 Since $250,000 + 40,000 = \$290,000$ is below the \$295,000 cap, the full \$40,000 reversal is recognized
8. The asset's carrying amount exceeds its recoverable amount.
9. The higher of fair value less costs of disposal and value in use.
10. The present value of the future cash flows expected from continuing to use (and eventually dispose of) the asset.

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