IMPAIRMENT OF LONG-LIVED ASSETS: ASPE 3063

Scope

Section 3063 applies to **all long-term assets except for**:

- **goodwill and intangible assets with indefinite useful lives** (see Goodwill And Intangible Assets, Section 3064);
- investments, including equity method accounted investments (see Investments, Section 3051);
- accrued benefit assets (see Employee Future Benefits, Section 3461);
- future income tax assets (see Income Taxes, Section 3465);
- financial assets, financial liabilities (see Financial Instruments, Section 3856)

Recognition and Measurement

- An impairment loss shall be recognized when the **carrying amount** of a long-lived asset is **not recoverable** and exceeds its **fair value**.
- The carrying amount of a long-lived asset is **not recoverable** if the **carrying amount exceeds** the sum of the **undiscounted cash flows** expected to result from its **use and eventual disposition**
- If carrying value > undiscounted cash flows; Impairment loss = carrying value – fair value

When to test for recoverability:

- A long-lived asset shall be tested for recoverability whenever **events or changes in circumstances indicate** that its carrying amount may not be recoverable

Grouping assets:

- For purposes of measuring impairment loss, a long-lived asset should be grouped with other **assets** and **liabilities** to form an **asset group** at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.
  - An example of when a liability would be included in an asset group is a mortgage for which the building is the only source of cash flow to pay the liability
- **Goodwill** is included in the carrying amount of an asset group to be tested for impairment only if the asset group **is or includes a reporting unit** (see section 3064)
- An asset group could include assets (such as accounts receivable and inventory) **not covered by this Section**, as well as liabilities (such as accounts payable and long-term debt).
  - With the exception of goodwill, the carrying amounts of these assets and liabilities are evaluated prior to testing the asset group for recoverability.
  - For example, the allowance for doubtful accounts and impaired loans would be evaluated in accordance with Financial Instruments, Section 3856, and long-lived assets held for sale would be evaluated in accordance with Disposal Of Long-Lived Assets And Discontinued Operations, Section 3475.
- An impairment loss for an asset group reduces only the carrying amounts of **long-lived assets held for use and not of any other assets or liabilities** of the asset group
- The loss is allocated to the long-lived assets of the group on a **pro rata basis** using the **relative carrying amounts** of those assets.
  - You cannot reduce an individual asset below its fair value (if determinable)

Factors that indicate impairment:

- An asset's market value has declined significantly more than expected
- A significant adverse change in the extent or manner in which it is being used or its physical condition

- A significant adverse change in legal factors or in the business climate that could affect its value
- Costs significantly in excess of the amount originally expected for its acquisition or construction
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with its use; or
- A current expectation that, more likely than not, it will be sold or otherwise disposed of significantly before the end of its previously estimated useful life

Reversal of Impairment Loss

- An impairment loss shall **not be reversed** if the fair value subsequently increases.

Comparison to IFRS

- IAS 36 (impairment of assets) also deals with **goodwill and intangibles with indefinite useful lives**
- Under IFRS, we compare **recoverable amount to the carrying value**, and if the carrying value exceeds the recoverable amount, we write down the asset the **recoverable amount**
- Under IFRS, impairment of goodwill is done differently (see section IAS 36)
- Grouping of assets
  - Under ASPE, assets are grouped to "asset groups" for purposes of impairment
  - Under IFRS, assets are tested individually, unless it doesn't generate cash flows independent of other assets (then it gets grouped into a cash-generating unit)
  - Under ASPE, an asset group can include liabilities
  - Under IFRS, only assets can be grouped to CGU (no liabilities)
- Under IFRS, **reversal of impairment loss** is allowed (**except for impairment loss on goodwill**)
- Under IFRS, must test impairment annually and whenever events indicate **for goodwill and unlimited life intangible assets** (under ASPE, test only when events indicate)