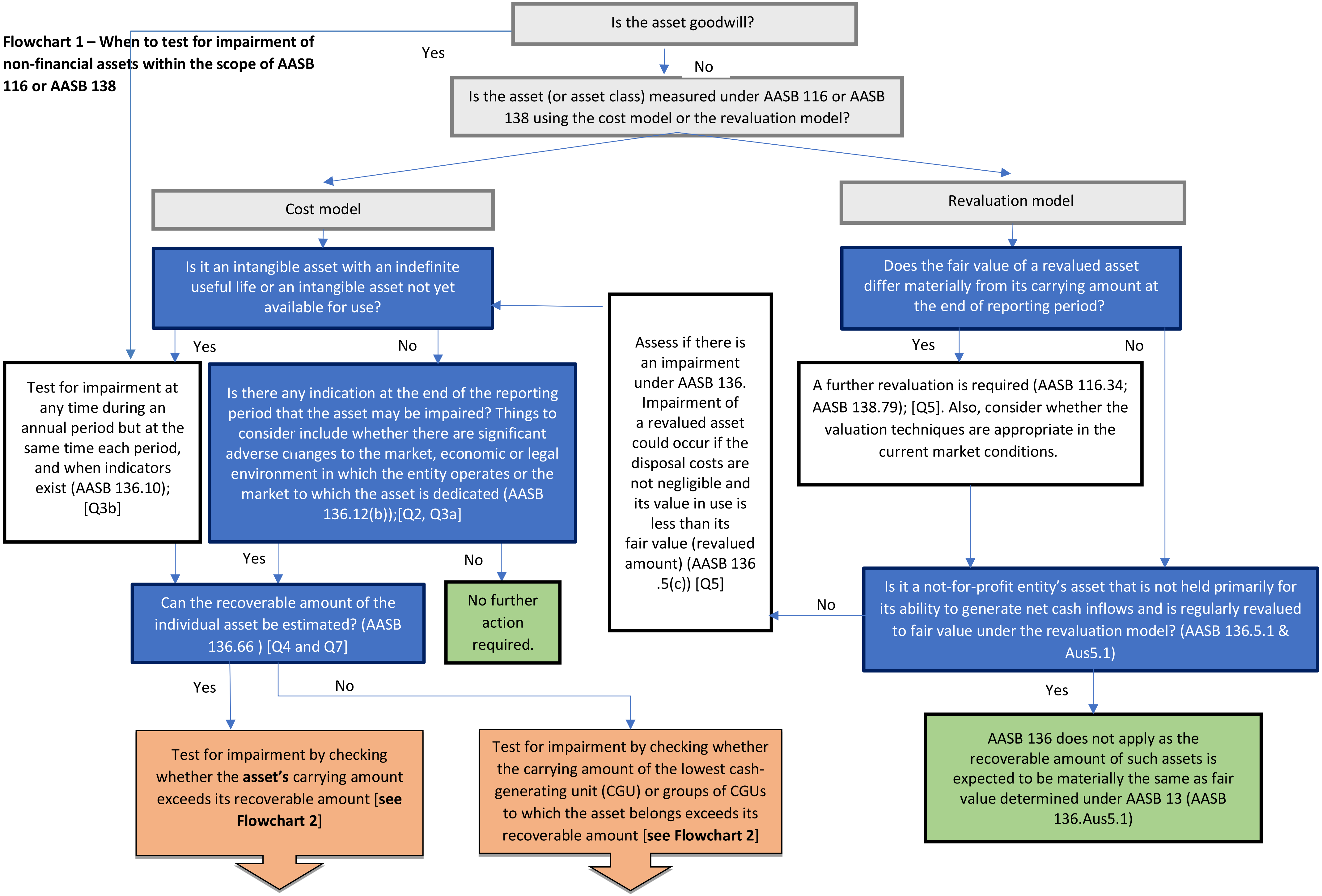
Staff FAQs – Impairment of non-financial assets

These FAQs have been developed by AASB staff, and hence express the view of AASB Staff, not necessarily the AASB itself. Staff FAQs are intended to be helpful material used to guide constituents in the application of AASB Standards, but do not change the requirements of AASB Standards and are not an interpretation of standards. Entities should always consider their own specific facts and circumstances when applying the requirements of AASB Standards.

The FAQs refer to the December 2016 compiled version of AASB 136 *Impairment of Assets*. They only relate to assets that are within the scope of AASB 136 and therefore do not apply to other assets including inventories (see AASB 136 paragraph 2 for a full list of excluded assets, the requirements for impairment of which are addressed in other specific AASB Standards).

Furthermore, the FAQs are relevant to both for-profit and not-for-profit entities, but in relation to the latter, do not address non-financial assets not held primarily for their ability to generate net cash inflows that are regularly revalued to fair value under the revaluation model in AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets* as the recoverable amount of these assets is expected to be materially the same as fair value (see AASB 136 paragraph Aus5.1).

Flowchart 1 – When to test for impairment of non-financial assets within the scope of AASB 116 or AASB 138



Flowchart 2 – How to test for impairment of non-financial assets within the scope of AASB 136

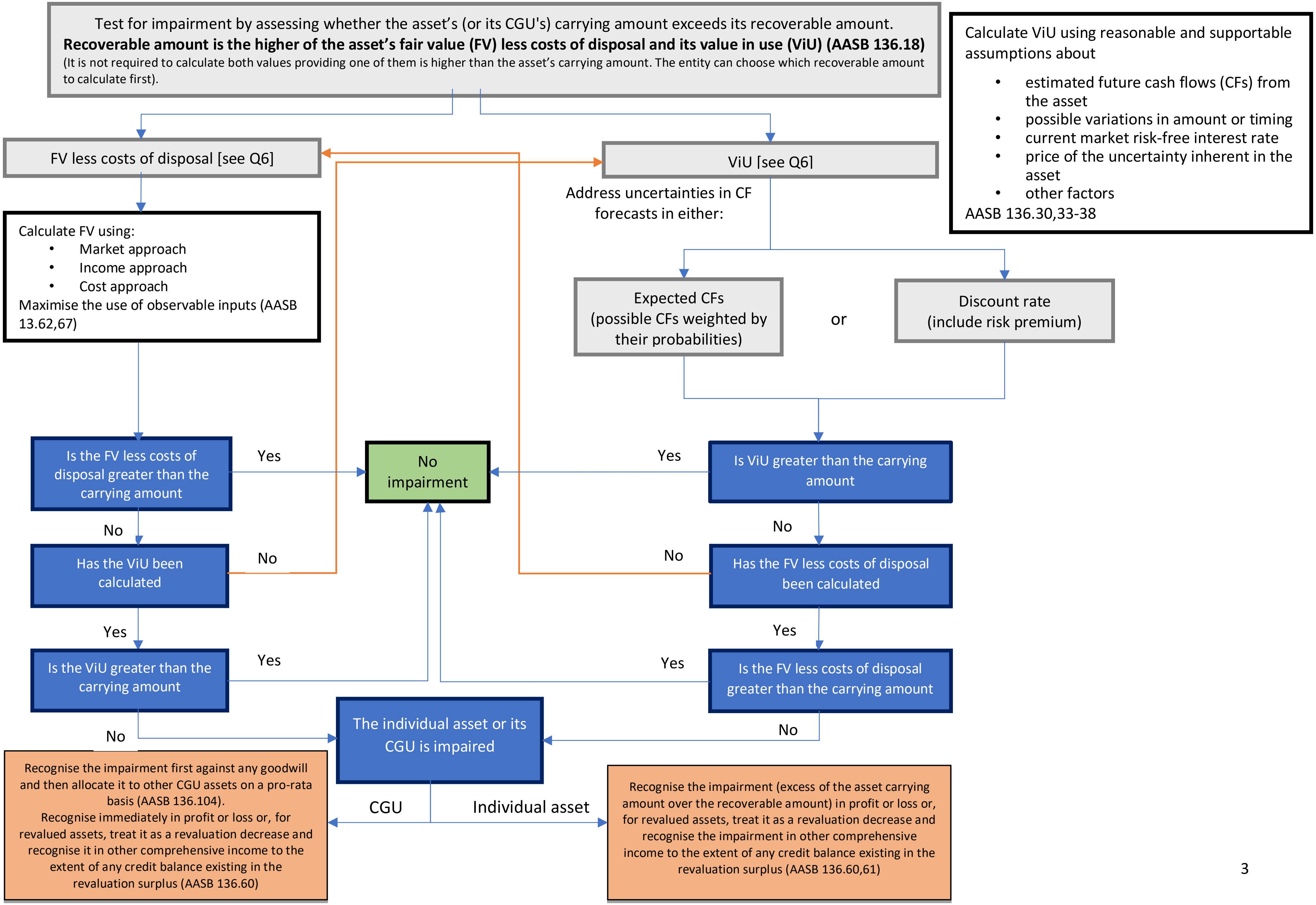


Table of Contents

Introduction.. 5

Q1: Does COVID-19 automatically trigger the need for an entity to test its assets for impairment?.. 5

Q2: What are some examples of potential indicators of impairment that could arise as a result of COVID-19? 5

Q3a: Timing of impairment consideration - can the entity wait until the reporting date to think about indicators of impairment in the current COVID-19 environment?................. 6

Q3b: If there are no indicators of impairment even in the current COVID-19 environment, does the entity still need to measure recoverable amounts?..................... 6

Q4: What is required to be done if there is an indication of impairment in the current COVID-19 environment? 7

Q5: If assets are measured under the revaluation model, is it necessary to also separately consider AASB 136 impairment issues?.. 7

Q6: What are some examples of COVID-19 specific factors that should be considered when calculating an asset's value in use or fair value less costs of disposal?.................... 8

Q7: If COVID-19 has had a pervasive adverse impact on the entity's business activities, does the entity need to consider impairment for individual assets, or, for convenience, can it just perform the impairment test at a cash-generating unit level?....................... 10

Q8: How might changes to business operations and recognised impairment losses caused by COVID-19 impact depreciation (amortisation) of assets? 10

Q9: What disclosures are needed regarding impairment of assets (or cash-generating units) as a result of COVID-19?... 11

Q10: What happens if an asset is found to be impaired at year-end due to COVID-19, but subsequently overcomes that impairment before finalisation of the financial statements?... 11

Q11: What are the implications of impairment requirements for interim financial reporting and the subsequent annual financial report in the current COVID-19 environment?... 12

Introduction

As COVID-19 is having an unprecedented impact on the economic outlook for the Australian and global economies, an entity might need to consider its ability to continue as a going concern. If the entity is not a going concern, it might need to assess the basis of preparation for its financial statements and therefore the guidance included in this FAQ might not be applicable. For further guidance on going concern, see AASB–AUASB joint FAQ The Impact of COVID-19 on Going Concern and Related Assessments.

The flowcharts above summarise when and how to test for impairment of non-financial assets within the scope of AASB 136. The questions below are addressing specific issues that arise in the impairment process within the context of COVID-19.

Q1: Does COVID-19 automatically trigger the need for an entity to test its assets for impairment?

No, although COVID-19 has created a situation where all entities should carefully consider whether there are any adverse effects of COVID-19 or whether potential impairment indicators exist (see Question 2 immediately below).

Anecdotally it is evident that COVID-19 has had a significant and broad impact on domestic and global economies. This has adversely affected many, albeit not all, assets of businesses.

Therefore, an entity should carefully consider whether COVID-19 has had or will have an adverse effect on its own current or future business activities and the manner in which its assets are or will be used (and therefore how that might impact the value of those assets relative to the carrying amounts of those assets).

The mere existence of COVID-19 and its related government-imposed restrictions, in and of themselves, do not necessarily indicate that an asset may be impaired. Accordingly, despite COVID-19, the entity might not need to undertake impairment tests and estimate recoverable amounts under AASB 136, except for those assets (e.g. an intangible asset with an indefinite useful life) that must be tested for impairment annually, irrespective of whether there is any indication of impairment (AASB 136 paragraph 10) – see Question 3b below.

Some businesses might not be adversely affected because demand for their pre-COVID-19 products has increased, or they have been able to quickly repurpose their assets away from no longer in-demand products to in-demand products (e.g. sanitiser manufacturers). However, in the latter case, consideration might need to be given to the sustainability of the repurposing if, for example, the market for sanitiser is at risk of becoming over-supplied in the foreseeable future.

Q2: What are some examples of potential indicators of impairment that could arise as a result of COVID-19?

COVID-19 is expected to give rise to indicators that point to many non-financial assets (or the cash generating units to which those assets are allocated)[1] being potentially impaired. This is so irrespective of whether the entity measures its non-financial assets using the cost model or the revaluation model (under AASB 116 *Property, Plant and Equipment* or AASB 138 *Intangible Assets*).

Significant adverse COVID-19 induced changes to the market or economic environment of the entity's operations to which an asset is dedicated are an indication that the asset's carrying amount under the cost model might be overstated or that the asset's fair value under the revaluation model might have fallen (AASB 136 paragraph 12(b)).[2] Examples of COVID-19 induced potential indicators of impairment include:

- current legal restrictions or expected legal restrictions in the near future on the entity's operations (e.g. bans or limitations on in-house dining at restaurants and attendance at gyms and theatres) if cash flows are primarily generated from an operation that is subject to those restrictions;

---

[1] Where relevant, references to non-financial asset or asset in this FAQ include the CGUs/Groups of CGUs.

[2] Question 5 below considers the interrelationship between AASB 136 vis a vis the revaluation model in AASB 116 and AASB 138.

- reduction or expected reduction in demand for products/services brought about by legal restrictions on non-essential activities and social distancing rules, or a decision to provide significant discounts on those products/services to customers;
- assets becoming idle due to suspended operations;
- customers experiencing financial difficulties due to unemployment or reduction in income, which may lead to decrease in demand for the entity's products/services;
- any concessions in price or deferral of payments for the entity's products/services that the entity might decide is necessary or prudent to give customers;
- increased business costs such as deep cleaning, supply interruptions or investment in technology to facilitate employees working from home; and
- a drop in the entity's share price, causing the entity's market capitalisation to fall below net asset value.

Q3a: Timing of impairment consideration - can the entity wait until the reporting date to think about indicators of impairment in the current COVID-19 environment?

In general, yes. However some assets need to be tested for impairment on an annual basis (and not necessarily at reporting date) regardless of whether there are any indicators of impairment, as noted in response to Question 3b immediately below.

For all assets within the scope of AASB 136, the entity is required to assess whether there is any indication of impairment **at the end of each reporting period** (AASB 136 paragraph 9), including at the end of each **interim period** (AASB 134 *Interim Financial Reporting* paragraph B36). If any indication of impairment exists, the entity is required to estimate the recoverable amount of the asset, which is addressed in Question 4 below.

If the entity recognised an impairment loss in prior periods, it should also assess at the end of each reporting period whether there is any indication that the previously recognised impairment no longer exists or it has decreased. If such indications exist, the entity should estimate the recoverable amount of the asset (AASB 136 paragraph 110). The indicators for decreases in an impairment loss might mirror the indications of a potential impairment loss discussed in Question 2 immediately above.

The entity should reverse an impairment loss recognised in prior periods only if there has been a change in the estimates used to determine the asset's recoverable amount (AASB 136 paragraph 114). This could be, for example, a change in timing or amount of estimated future cash flows or in the discount rate. However, this does not apply to impairment losses recognised for goodwill, which cannot be reversed (AASB 136 paragraph 124).

Q3b: If there are no indicators of impairment even in the current COVID-19 environment, does the entity still need to measure recoverable amounts?

Yes, but only in relation to its:

- goodwill;
- intangible assets with an indefinite useful life; and
- intangible assets that are not yet available for use.

The entity needs to test these types of assets for impairment annually (at any time during an annual period for any one asset, but at the same time every year for that asset) irrespective of whether there is any indication of impairment (AASB 136 paragraph 10) and therefore irrespective of COVID-19. If an intangible asset with an indefinite useful life or an intangible asset not yet available for use was initially recognised during the current annual period, that intangible asset needs to be tested for impairment before the end of the current annual period (AASB 136 paragraph 10).

Furthermore, impairment testing of a cash-generating unit to which goodwill has been allocated (or an intangible asset with an indefinite useful life or not yet available for use) might need to be done more frequently than once a year if there are indicators of impairment (AASB 136 paragraph 90). For example, if the entity has performed an annual impairment test for goodwill in the first half of the year, it might need to retest the cash-generating unit or groups of units to which goodwill has been allocated again at the end of the current reporting period if there are indicators of impairment as a result of COVID-19 (or any other reason).

As noted at the end of Question 3a immediately above, an impairment loss recognised for goodwill should not be reversed in subsequent periods (AASB 136 paragraph 124).

A question arises as to whether assets measured under the revaluation model in AASB 116 or AASB 138 need to be subject to the same level of impairment scrutiny given that regular revaluations to fair value would be expected to automatically reflect the effect of impairment events. This is because revaluations are required to be made with sufficient regularity to ensure carrying amounts do not differ materially from those that would be determined using fair values **at the end of the reporting period** (AASB 116 paragraph 31 and AASB 138 paragraph 75). This issue is addressed separately under Question 5 below.

Q4: What is required to be done if there is an indication of impairment in the current COVID-19 environment?

The entity must undertake an impairment test by estimating the recoverable amount (being the higher of 'value in use' and 'fair value less costs of disposal') and comparing it with the carrying amount.

The entity does not necessarily need to estimate both value in use and fair value less costs of disposal – if either amount exceeds the asset's carrying amount, the asset is not impaired and the entity is not required to determine the other amount (AASB 136 paragraph 19). If management assesses that an asset's value in use does not materially exceed its fair value less costs of disposal, the latter amount may be used as the recoverable amount, for example for an asset held for disposal (AASB 136 paragraph 21).[3] In contrast, the entity must use the value in use of an asset as the recoverable amount where fair value less costs of disposal cannot be measured (AASB 136 paragraph 20, which identifies some circumstances where it might not be possible to estimate fair value less costs of disposal). While COVID-19 is likely to make it more difficult to reliably estimate value in use or fair value less costs of disposal for an individual asset or for the cash-generating unit to which the asset belongs, this does not mean that impairment testing can be avoided. Question 6 provides further guidance on factors to consider when determining value in use or fair value less costs of disposal in the current COVID-19 environment.

AASB 136 paragraph 8 specifies that an asset or a cash-generating unit is impaired if its carrying amount exceeds its recoverable amount.

Any amount of impairment loss (i.e. the excess of the asset's carrying amount over its recoverable amount) is recognised in profit or loss, or as a revaluation decrease in other comprehensive income in the case of assets carried at revalued amount (AASB 136 paragraph 60) to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that asset (or class of assets in the case of a not-for-profit entity – see Question 5 immediately below).

In the case of cash-generating units or groups of cash-generating units, an impairment loss is first recognised to reduce the carrying amount of any goodwill allocated to the cash-generating unit or groups of units and then to the other assets of the unit/groups of units pro-rata on the basis of the carrying amounts of the assets in the unit (see Question 7 for when impairment of an individual non-goodwill asset that belongs to a cash-generating unit should be recognised). However the carrying amount of individual assets should not be reduced below the highest of the asset's fair value less costs of disposal (if measurable), its value in use (if determinable) and zero (AASB 136 paragraphs 104 and 105).

Q5: If assets are measured under the revaluation model, is it necessary to also separately consider AASB 136 impairment issues?

Yes, the entity might need to consider impairment under AASB 136 even if it has adopted the revaluation model under AASB 116 or AASB 138 and has already recently revalued assets to fair value.

If an asset is measured under the revaluation model, the entity must make revaluations with sufficient regularity to ensure the carrying amount does not differ materially from the fair value of the asset at the end of

---

[3] Note that non-current assets classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* are not in scope of AASB 136 (AASB 136 paragraph 2i)).

the reporting period. Therefore, if circumstances have arisen that indicate that the asset's fair value is materially below its carrying amount (e.g. due to a COVID-19 triggered impairment under AASB 136 or other factors) a downwards revaluation is required (AASB 116 paragraph 34 and AASB 138 paragraph 79). In this case, the entire class of asset to which that asset belongs is required to be revalued (AASB 116 paragraph 36 and AASB 138 paragraph 73). In addition, the entity must consider the impairment requirements of AASB 136, as there are circumstances where the recoverable amount determined under AASB 136 might be lower than the fair value determined under AASB 13 *Fair Value Measurement* and hence require an additional write-down. This will be the case if both of the following are met:

(a) there are material costs of disposal that will have to be taken into account when determining the fair value less costs of disposal for the purpose of AASB 136; and
(b) the value-in-use determined under AASB 136 is lower than the fair value less costs of disposal.

The downwards revaluation and additional impairment loss are both accounted for in the same manner, being the recognition:

(a) in other comprehensive income to the extent of any credit balance in the revaluation reserve in respect of the relevant asset; and
(b) of any excess amount in profit or loss (AASB 136 paragraph 60, AASB 116 paragraph 40, AASB 138 paragraph 86).

Since not-for-profit entities account for revaluation increases and decreases on a class of assets basis, revaluation net decreases are recognised in other comprehensive income to the extent of any credit balance in the revaluation reserve in respect of the same class of asset (AASB 136 paragraph Aus61.1, AASB 116 paragraph Aus40.1, AASB 138 paragraph Aus86.1).

Irrespective of the order in which impairments under AASB 136 and revaluations under AASB 116 and AASB 138 are accounted for, the distinction between an impairment loss and a revaluation decrease is important for disclosure purposes as more information on how the impairment loss was measured is required than on a revaluation decrease.[4] Disclosure requirements relating to impairments are addressed in Question 9 below.

Q6: What are some examples of COVID-19 specific factors that should be considered when calculating an asset's value in use or fair value less costs of disposal?

VALUE IN USE

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. It involves estimating the future cash flows from the use of the asset and applying the appropriate discount rate to those future cash flows (AASB 136 paragraph 31). Making such estimates in the current COVID-19 environment can be particularly challenging, but nonetheless must be made. General guidance for doing so is provided in AASB 136 paragraphs 30 to 57 and Appendix A. Greater weight should be placed on external evidence (AASB 136 paragraph 33(a)).

The entity should carefully consider all the information known at the time of making a reasonable estimate. For example, consistent with the examples of factors provided in response to Question 2 above, the future cash flows should reflect an assessment of:

- the entity's ability to generate cash flows, factoring in the impact of any suspended operations or production and difficulty in obtaining required labour and other supplies to continue operations or production;
- the impact of social distancing rules on the entity's business activities;
- any concessions in price or deferral of payments that the entity might decide is necessary or prudent to give customers; and
- the length of time required for the entity to recover from the adverse effects of COVID-19.

---

[4] As noted by the International Accounting Standards Board (IASB) in its Basis for Conclusions accompanying IAS 36 *Impairment of Assets* paragraph BCZ112.

In addition to estimating cash flows, the entity also needs to consider whether COVID-19 has affected the market-based asset-specific discount rate to be used in calculating value-in-use (e.g. as a result of a further decrease of interest rates by the Reserve Bank of Australia, increased cost of equity or increased market-risk premium).

The future cash flows should reflect the asset in its current condition. Accordingly, they should not reflect cash inflows/outflows expected to arise from a future restructuring to which the entity is not yet committed or from improving or enhancing the asset's performance (AASB 136 paragraph 44).

The entity can choose whether to compute the present value by including the uncertainty relating to estimating the future cash flows using either:

- a single set of **best estimate cash flows** and a single discount rate. In this case, uncertainties are reflected through the risk premium included in the discount rate; or
- an **expected cash flow** approach, which consists of possible scenarios of cash flows weighted by their probabilities. In this case, uncertainties are reflected through the various scenarios and their probabilities.

Whichever approach an entity adopts, the result should reflect the expected present value of the future cash flows, i.e. the weighted average of all possible outcomes. To avoid double counting, the discount rate should not reflect risks for which the estimated cash flows have been adjusted (i.e. the discount rate applied to **expected** cash flows would be expected to be **lower** than the discount rate applied to **best estimate** cash flows). However, management should not automatically use the approach used in prior (pre-COVID-19) years – management should consider which approach better reflects the uncertainties in the current COVID-19 business environment.

FAIR VALUE LESS COSTS OF DISPOSAL

When calculating the fair value of an asset (as input to an estimate of fair value less costs of disposal), it is important to consider the assumptions that market participants would use when pricing the asset, including assumptions about risk (AASB 13 paragraph 3). An entity needs to exercise judgement in making reasonable estimates about the inputs and assumptions used in measuring fair value. In particular, COVID-19 related risk factors that a market participant would likely consider when pricing an asset that should also be taken into account by the entity might include:

- any current restrictions or expected restrictions in the near future on the asset's use or on the cash flows the asset can generate (e.g. reduced income from suspended operations or rental arrangements caused by COVID-19);
- any current reduction or expected reduction in the near future in the demand for or the price of the asset; and
- changes in risk-free interest rates and other market prices.

An entity would also need to consider if current valuation techniques remain appropriate under current market conditions and maximise the use of observable inputs. For example, transactions that occurred prior to COVID-19 might be less relevant in measuring the fair value of an asset for impairment assessment purposes given the uncertainties in the economy brought about by COVID-19. If there is a lack of market transactions that reflect the current environment at valuation date, an entity would need to consider other techniques, such as the income approach or the cost approach (or a combination of approaches), maximising the use of observable inputs (for guidance on valuation techniques refer to AASB 13 Appendix B).

If an entity uses multiple valuation techniques to measure fair value, the results (i.e. respective measurements of fair value) should be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the (COVID-19) circumstances (AASB 13 paragraph 63) that would then be used in the measurement of fair value less costs of disposal.

Many assets of not-for-profit entities that are not held primarily for their ability to generate net cash inflows are typically specialised assets held for continuing use of their service capacity. Given that these assets are rarely sold, their costs of disposal are typically negligible. The recoverable amount of such assets is expected to be materially the same as fair value, determined under AASB 13 *Fair Value Measurement* (AASB 136 paragraph Aus5.1).

Q7: If COVID-19 has had a pervasive adverse impact on the entity's business activities, does the entity need to consider impairment for individual assets, or, for convenience, can it just perform the impairment test at a cash-generating unit level?

Where possible, impairment assessments must be made at an individual asset level before any impairment assessments of cash-generating units, even in the COVID-19 environment.

If any impairment indicator in relation to an individual asset exists (see Question 2 above), the recoverable amount of that individual asset must be estimated, if possible. Any impairment identified will reduce the carrying amount of the asset, and thereby reduce the carrying amount of the total assets comprising the cash-generating unit to which the asset belongs.

However, it may not be possible to estimate the recoverable amount of an individual asset for which an indicator of impairment exists because:

(a) the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets; and
(b) neither of the following applies:
    a. the asset's fair value less costs of disposal is higher than its carrying amount; or
    b. the asset's value in use can be estimated to be close to its fair value less costs of disposal and fair value less costs of disposal can be measured.

In such situations, the entity must instead determine the recoverable amount of the cash-generating unit to which the asset belongs (AASB 136 paragraphs 22, 66 and 67) and determine whether that cash-generating unit is impaired.

Irrespective of that, and indeed irrespective of the presence or otherwise of impairment indicators, a cash-generating unit that includes any allocation of goodwill must be impairment tested annually as noted in Question 3b above. Where an impaired individual asset belongs to such a cash-generating unit, that individual asset must be written down to its recoverable amount before the cash-generating unit is tested.

In the process of impairment testing a cash-generating unit, the recoverable amount of total assets comprising the cash-generating unit is compared with the restated total carrying amount of the cash-generating unit's assets after individual impairment write-downs (AASB 136 paragraphs 97 and 98). A similar requirement applies for cash-generating units constituting a group of cash-generating units to which goodwill has been allocated, i.e. the individual units are tested for impairment and written down before the group of units containing the goodwill is tested.

Q8: How might changes to business operations and recognised impairment losses caused by COVID-19 impact depreciation (amortisation) of assets?

If as a result of COVID-19 (or indeed for other reasons) an impairment loss is recognised, the depreciation/amortisation charge for the asset needs to be adjusted in future periods to reflect the revised depreciable amount (AASB 136 paragraph 63).

Furthermore, even if no impairment loss was recognised after impairment testing, the changes to the entity's operations as a result of COVID-19 could require a review of the appropriateness of the depreciation method (where the depreciation method no longer reflects the pattern of consumption of economic benefits), the useful life of the asset and its residual value (AASB 136 paragraph 17). For example, under AASB 116, an asset that has become idle due to COVID-19 and that is depreciated using the straight-line-method would continue to be depreciated even while idle unless the entity can demonstrate that the straight-line method is no longer an appropriate reflection of the consumption of the asset's benefits, in which case the entity would need to change the depreciation method to something more appropriate. If the unit of production basis gives a better reflection of the consumption of the asset's benefits, no depreciation would be recognised while the asset is idle. Changes to the depreciation method, the useful life or the residual value are considered 'changes in estimates' which are accounted for in accordance with the requirements in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Q9: What disclosures are needed regarding impairment of assets (or cash-generating units) as a result of COVID-19?

Robust disclosures about the assumptions management makes about the future of the business operations that affected the determination of the recoverable amount of assets are required in order for users of financial statements to understand the risks and uncertainties the entity is facing, and the judgements made in measuring asset values.

Tier 1

Entities that are reporting under Tier 1 of the AASB's differential reporting framework and state compliance with International Financial Reporting Standards (IFRS) should consider the following disclosure requirements:

- disclosures required by AASB 136, for example:
    - amounts of impairment losses (reversals) recognised;
    - events leading to impairment (e.g. a general description of the impact COVID-19 has had on the entity's assets);
    - descriptions of the assets (or cash-generating units) and their recoverable amounts;
    - if the recoverable amount is fair value less costs of disposal:
        - the level of fair value hierarchy applied;
        - descriptions of the valuation techniques and key assumptions used to determine the fair value for Level 2 or 3 categories; and
    - if the recoverable amount is value in use, discount rates used;
- judgements made that have the most significant effect on the carrying amount of assets. For example, the factors considered in estimating future cash flows, including the impact COVID-19 has had on those factors (see AASB 101 *Presentation of Financial Statements* paragraph 122); and
- major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the next financial year (see AASB 101 paragraphs 125 and 133), for example how the impact from a government's COVID-19 stimulus package was factored into the calculation of the entity's assets' recoverable amounts.

Tier 2

Entities that are reporting under Tier 2 of either the Reduced Disclosure Requirements (RDR) or the Simplified Disclosure Standard (SDS) should consider the following disclosure requirements:

- RDR - AASB 136: the amount of impairment losses (reversals) recognised and the recoverable amount of an asset or a cash-generating unit that has been impaired (paragraph 126 and 130(e)); and

- SDS - AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*: the amount of impairment losses (reversals) recognised (paragraph 160).

While there are fewer specified mandatory impairment disclosures in the standards than for Tier 1 entities, both frameworks (RDR and SDS) also require disclosure of:

- judgements made that have the most significant effect on the carrying amount of the assets (AASB 101 paragraph 122 and AASB 1060 paragraph 96); and
- major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of the assets within the next financial year (AASB 101 paragraphs 125 and 133; AASB 1060 paragraph 97).

Q10: What happens if an asset is found to be impaired at year-end due to COVID-19, but subsequently overcomes that impairment before finalisation of the financial statements?

The impairment would typically be expected to be recognised in the year-end financial statements, but there might be some exceptions to that general expectation.

COVID-19 induced market, economic and legal conditions could change rapidly, and an entity is required to consider, in accordance with AASB 110 *Events after the Reporting Period*, whether events that occurred after the reporting period would impact its financial statements – see AASB–AUASB joint FAQ *The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations* for further guidance.

If an impairment loss exists at reporting date but the events affecting the impairment calculation improved after the end of the reporting period, management needs to consider whether those conditions existed at the reporting date or not. For example, an entity might receive COVID-19 inspired government assistance[5] after the reporting date (but before the financial statements are authorised for issue) that was not included in the value in use calculation for the impaired asset. In this case, the entity will need to determine whether the government assistance was a condition that existed at the end of the reporting period and whether the expected cash flow from the government assistance could therefore be included in the value in use calculation. If this is the case, the impairment calculations would need to be updated to reflect the impact of the government assistance and this might reduce the amount of the impairment that is recognised in the financial statements.

However, if the event that indicates an impairment loss might have ceased to exist occurs only after the reporting date, that reversal should not be reflected in the current financial statements. Another example of a non-adjusting event might be changes in the assets' recoverable amounts due to large changes in asset prices or foreign exchange rates (AASB 110 paragraph 22(g)) after the reporting period. If the entity determines that the event is material to the financial statements, it should instead disclose the following in the financial statements (AASB 110 paragraph 21):

(a) the nature of the event after the reporting period; and

(b) an estimate of its financial effect or a statement that such an estimate cannot be made.

Q11: What are the implications of impairment requirements for interim financial reporting and the subsequent annual financial report in the current COVID-19 environment?

While it is not necessary for an entity to make a detailed impairment calculation at the end of each interim period, the entity must still consider whether there are any indicators for significant impairments since the end of the most recent financial year to determine whether such a calculation is needed (AASB 134 *Interim Financial Reporting* paragraphs 30(a) and B36).

The same principles for recognising and measuring impairment losses in annual financial statements apply to the financial statements of an interim period. If an impairment loss is recognised and measured in one interim period and the estimate changes in a subsequent interim period of that financial year, the original estimate is changed in the subsequent interim period either by accrual of an additional impairment loss or by reversal of the previously recognised impairment loss (AASB 134 paragraph 28 and AASB 136 paragraph 114).

However if an impairment loss of goodwill was recognised in the interim financial statements and the economic conditions improve in the following interim period of the financial year, an entity is not allowed to reverse it (AASB Interpretation 10 *Interim Financial Reporting and Impairment*).

AASB 134 paragraph 15B provides examples of the information that the entity should disclose in its interim financial statements. These include, for example, a loss from the impairment of an asset or reversal of such impairment.

[5] For accounting guidance on government grants see AASB Staff FAQ Accounting for government support or AASB 120.