AASB Interpretation

Interpretation 10
August 2015

# Interim Financial Reporting and Impairment

Australian Government

Australian Accounting Standards Board

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AASB Interpretation 10 *Interim Financial Reporting and Impairment* is set out in paragraphs 1 – Aus14.1. Interpretations are listed in Australian Accounting Standard AASB 1048 *Interpretation of Standards* and AASB 1057 *Application of Australian Accounting Standards* sets out their application. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

## Comparison with IFRIC 10

AASB Interpretation 10 *Interim Financial Reporting and Impairment* incorporates Interpretation IFRIC 10 *Interim Financial Reporting and Impairment* issued by the International Accounting Standards Board (IASB). Australian-specific paragraphs (which are not included in IFRIC 10) are identified with the prefix "Aus". Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

## Tier 1

For-profit entities complying with AASB Interpretation 10 also comply with IFRIC 10.

Not-for-profit entities' compliance with IFRIC 10 will depend on whether any "Aus" paragraphs that specifically apply to not-for-profit entities provide additional guidance or contain applicable requirements that are inconsistent with IFRIC 10.

AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of reporting requirements.

# AASB Interpretation 10
## *Interim Financial Reporting and Impairment*

## References

- AASB 9 *Financial Instruments*
- AASB 134 *Interim Financial Reporting*
- AASB 136 *Impairment of Assets*

## Background

1 An entity is required to assess goodwill for impairment at the end of each reporting period, and, if required, to recognise an impairment loss at that date in accordance with AASB 136. However, at the end of a subsequent reporting period, conditions may have so changed that the impairment loss would have been reduced or avoided had the impairment assessment been made only at that date. This Interpretation provides guidance on whether such impairment losses should ever be reversed.

2 The Interpretation addresses the interaction between the requirements of AASB 134 and the recognition of impairment losses on goodwill in AASB 136, and the effect of that interaction on subsequent interim and annual financial statements.

## Issue

3 AASB 134 paragraph 28 requires an entity to apply the same accounting policies in its interim financial statements as are applied in its annual financial statements. It also states that 'the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. To achieve that objective, measurements for interim reporting purposes shall be made on a year-to-date basis.'

4 AASB 136 paragraph 124 states that 'An impairment loss recognised for goodwill shall not be reversed in a subsequent period.'

5–6 [Deleted]

7 The Interpretation addresses the following issue:

> Should an entity reverse impairment losses recognised in an interim period on goodwill if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period?

## Consensus

8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.

9 An entity shall not extend this consensus by analogy to other areas of potential conflict between AASB 134 and other Australian Accounting Standards.

## Effective date and transition

10 An entity shall apply the Interpretation for annual periods beginning on or after 1 January 2018. Earlier application is encouraged for periods beginning after 24 July 2014 but before 1 January 2018. If an entity applies the Interpretation for a period beginning before 1 January 2018, it shall disclose that fact. An entity shall apply the Interpretation to goodwill prospectively from the date at which it first applied AASB 136; it shall apply the Interpretation to investments in equity instruments or in financial assets carried at cost prospectively from the date at which it first applied the measurement criteria of AASB 139.

11–13 [Deleted]

14 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (as amended), amended the previous version of the Interpretation as follows: amended paragraphs 1, 2, 7 and 8 and deleted paragraphs 5, 6 and 11. Paragraph 12, added by AASB 2010-7, was deleted by AASB 2014-1 *Amendments to Australian Accounting Standards*. Paragraph 13, added by AASB 2014-1, was deleted by AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*. An entity shall apply those amendments when it applies AASB 9.

## Withdrawal of AASB pronouncements

Aus14.1 When applied or operative, this Interpretation supersedes Interpretation 10 *Interim Financial Reporting and Impairment* issued in September 2006.

# Basis for Conclusions on
# IFRIC 10 *Interim Financial Reporting and Impairment*

*This Basis for Conclusions accompanies, but is not part of, AASB Interpretation 10. An IFRIC Basis for Conclusions may be amended to reflect any additional requirements in the AASB Interpretation or AASB Accounting Standards.*

BC1 This Basis for Conclusions summarises the IFRIC's considerations in reaching its consensus. Individual IFRIC members gave greater weight to some factors than to others.

BC2 IAS 34 requires an entity to apply the same accounting policies in its interim financial statements as it applies in its annual financial statements. For annual financial statements, IAS 36 prohibits an entity from reversing an impairment loss on goodwill that it recognised in a prior annual period. Similarly, IAS 39[1] prohibits an entity from reversing in a subsequent annual period an impairment loss on an investment in an equity instrument or in a financial asset carried at cost. These requirements might suggest that an entity should not reverse in a subsequent interim period an impairment loss on goodwill or an investment in an equity instrument or in a financial asset carried at cost that it had recognised in a prior interim period. Such impairment losses would not be reversed even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

BC3 However, IAS 34 requires year-to-date measures in interim financial statements. This requirement might suggest that an entity should reverse in a subsequent interim period an impairment loss it recognised in a prior interim period. Such impairment losses would be reversed if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the subsequent interim period.

BC4 The IFRIC released Draft Interpretation D18 *Interim Financial Reporting and Impairment* for public comment in January 2006. It received more than 50 letters in response.

BC5 The IFRIC noted that many of the respondents believed that in attempting to address contradictions between standards, D18 was beyond the scope of the IFRIC. Some believed that the issue addressed could be better resolved by amending IAS 34. Before finalising its views, the IFRIC asked the International Accounting Standards Board to consider this point. The Board, however, did not wish to amend IAS 34 and asked the IFRIC to continue with its Interpretation.

BC6 Respondents to D18 were divided on whether the proposed Interpretation should prohibit the reversal of impairment losses on goodwill or investments in equity instruments or in financial assets carried at cost that had been recognised in interim periods. The IFRIC considered these responses but maintained its view that such losses should not be reversed in subsequent financial statements. The IFRIC observed that the wide divergence of views evident from respondents' letters underlined the need for additional guidance and it therefore decided to issue the Interpretation with few changes from D18.

BC7 The IFRIC considered the example of Entity A and Entity B, which each hold the same equity investment with the same acquisition cost. Entity A prepares quarterly interim financial statements and Entity B prepares half-yearly financial statements. The entities have the same year-end. The IFRIC noted that if there was a significant decline in the fair value of the equity instrument below its cost in the first quarter, Entity A would recognise an impairment loss in its first quarter interim financial statements. However, if the fair value of the equity instrument subsequently recovered, so that by the half-year date there had not been a significant decline in fair value below cost, Entity B would not recognise an impairment loss in its half-yearly financial statements if it tested for impairment only at its half-yearly reporting dates. Therefore, unless Entity A reversed the impairment loss that had been recognised in an earlier interim period, the frequency of reporting would affect the measurement of its annual results when compared with Entity B's approach. The IFRIC also noted that the recognition of an impairment loss could similarly be affected by the timing of the financial year-ends of the two entities.

BC8 The IFRIC noted that the illustrative examples accompanying IAS 34 provide examples of applying the general recognition and measurement principles of that standard, and that paragraph B36 states that IAS 34 requires an entity to apply the same impairment testing, recognition, and reversal criteria at an interim date as it would at the end of its financial year.

BC9 The IFRIC concluded that the prohibitions on reversals of recognised impairment losses on goodwill in IAS 36 and on investments in equity instruments and in financial assets carried at cost in IAS 39[2] should take precedence over the more general statement in IAS 34 regarding the frequency of an entity's reporting not affecting the measurement of its annual results.

1 IFRS 9 *Financial Instruments* replaced IAS 39. IFRS 9 applies to all items that were previously within the scope of IAS 39.

2 In November 2009 and October 2010 the Board amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all items within the scope of IAS 39.

BC10 Furthermore, the IFRIC concluded that the rationale for the non-reversal of impairment losses relating to goodwill and investments in equity instruments, as set out in paragraph BC189 of IAS 36 and paragraph BC130 of IAS 39, applies at both interim and annual reporting dates.

BC11 The IFRIC considered a concern that this conclusion could be extended to other areas of potential conflict between IAS 34 and other standards. The IFRIC has not studied those areas and therefore has not identified any general principles that might apply both to the Interpretation and to other areas of potential conflict. The IFRIC therefore added a prohibition against extending the consensus by analogy to other areas of potential conflict between IAS 34 and other standards.

BC12 D18 proposed fully retrospective application. A number of comment letters stated that this could be read as being more onerous than the first-time adoption requirements of IAS 36. The IFRIC revised the wording of the transition requirements to make clear that the Interpretation should not be applied to periods before an entity's adoption of IAS 36 in the case of goodwill impairments and IAS 39 in the case of impairments of investments in equity instruments or in financial assets carried at cost.