

PORTO LEONE CONSULTING, LLC

Corporate Valuation, Appraisal and Cost Segregation Services
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Impairment

Everything old is new again. Working our way through the current pandemic brings back memories of the previous financial crisis and its impairments. The rules for asset impairment remain the same this time around. ASC 360-*Property, Plant, and Equipment* or IAS 36-*Impairment of Assets* for IFRS indicates when and how to test and measure for impairment.

When to test

Whenever events or changes in circumstances indicate that carrying amount may not be recoverable:

- Significant decrease in the market price of a long-lived asset (asset group)
- Significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition
- Significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator
- Accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group)
- 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 the use of a long-lived asset (asset group)
- Current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

How to test

An impairment loss can be recognized for a long-lived asset (group) that is held and used only if the sum of its estimated future undiscounted cash flows used to test for recoverability is less than its carrying value.

Measurement

Assets may be partially or fully impaired. In measurement, appraisals are prepared showing the value of the assets on a) discounted cash flow basis and b) realizable value basis with asset value being the greater of a) and b). Impairment is the difference between asset value and carrying value.