ASPE At a Glance

Section 3063 - Impairment of Long-lived Assets & Goodwill

February 2022

Impairment of Long-lived Assets & Goodwill[1]

Effective Date
Fiscal years beginning on or after January 1, 2011[2]

Scope

Section 3063 applies to:

- Non-monetary long-lived assets, held for use, including property, plant and equipment, intangible assets with finite useful lives and long-term prepaid assets.

Section 3064 applies to:

- Goodwill subsequent to initial recognition and intangible assets with indefinite useful lives.

Section 3063 does not apply to:

- Long-lived assets to be disposed of (see Section 3475).
- Goodwill and intangible assets with indefinite useful lives (see Section 3064).
- Investments, including equity method accounted investments (see Section 3051).
- Defined benefit assets (see Section 3462).
- Future income tax assets (see Section 3465).
- Financial assets, financial liabilities and contracts to buy or sell non-financial items accounted for in accordance with Section 3856, *Financial Instruments*.
- Oil and gas assets accounted for using the full cost method (see AcG-16).
- Unproved oil and gas properties accounted for using the successful efforts method.
- Productive biological assets not subject to amortization (see Section 3041).

Recognition and Measurement of Impairment of Long-Lived Assets, Including Intangible Assets Not Subject to Amortization

When to Test for Recoverability

- Whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable.
- Examples of such events or changes in circumstances are provided in paragraph 3063.10.

Grouping Assets

- For the purposes of recognition and measurement of an impairment loss, a long-lived asset must 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.

Cash Flow Test for Recoverability

- Only future cash flows (cash inflows less associated cash outflows) directly associated with, and expected to arise as a direct result of, a long-lived asset's use and eventual disposition are included in the estimates of future cash flows used to test the recoverability of the long-lived asset.
- These cash flows include the principal amount of any liabilities included in the asset group, but do not include interest that will be recognized as an expense when incurred.

Impairment Loss

- When the carrying amount of a long-lived asset is not recoverable and exceeds its fair value an impairment loss must be recognized.
  - The carrying amount of a long-lived asset is not recoverable if:
    - The carrying amount is greater than the sum of the undiscounted cash flows that are expected to result from the asset's use and eventual disposition.
  - The assessment is based on the carrying amount of the asset at the date it is tested for recoverability whether it is in use or under development.
- When an impairment loss is recognized, the adjusted carrying amount becomes the long-lived asset's new cost basis.
- For a depreciable long-lived asset, this new cost basis is amortized in accordance with Section 3061, *Property, Plant and Equipment*.
- If the fair value of the long-lived asset subsequently increases, an impairment loss cannot be reversed.

[1] Includes Section 3063 – *Impairment of Long-lived Assets*, and portions of Section 3064 - *Goodwill and Intangible Assets* related to goodwill. For the remainder of the guidance provided in Section 3064 related to intangible assets, please refer to our publication "ASPE At a Glance - *Intangible Assets*".
[2] Except as specified in paragraph 3064.95.

Recognition and Measurement of Impairment of Goodwill

Assigning Assets and Liabilities to Reporting Units

- For the purpose of testing goodwill for impairment, acquired assets and assumed liabilities must be assigned to a reporting unit, as a the date of acquisition, when:
  - The asset is employed in, or the liability relates to, the operations of a reporting unit; and
  - The asset or liability is considered in determining the fair value of the reporting unit.
- All goodwill acquired in a business combination must be assigned to one or more reporting units as of the date of acquisition, for the purpose of testing goodwill for impairment.
- When an enterprise reorganizes its reporting structure in a way that changes the makeup of one or more reporting units, the guidance in paragraphs 3064.78-.80 is used to reassign assets and liabilities to the reporting units affected. The relative fair value allocation approach is used to reassign goodwill.

Recognition and Measurement of an Impairment Loss

- Whenever events or changes in circumstances indicate the carrying amount of the reporting unit to which goodwill is assigned may be greater than the fair value of the reporting unit, goodwill must be tested for impairment.
- When the carrying amount of a reporting unit, including goodwill, exceeds the fair value of a reporting unit, a goodwill impairment loss equal to the excess must be recognized.
- This impairment loss recognized cannot be greater than the carrying amount of goodwill.
- If the fair value of the reporting unit subsequently increases, the goodwill impairment loss cannot be reversed.

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