

Define what is meant by 'impairment' and explain how FRS 102 requires such impairment to be measured and recognised in consolidated financial statements.

Ericus Ltd has a cash generating unit (CGU) that suffers a large drop in income due to reduced demand for its products. An impairment review was carried out and the recoverable amount of the cash generating unit was determined at £250m. The assets of the CGU had the following carrying amounts immediately prior to the impairment:

Assets	Carrying Amount (£m)
Goodwill	80
Intangibles	100
Property, Plant & Equipment	60
Inventory	80
Trade Receivables	100
Total	420

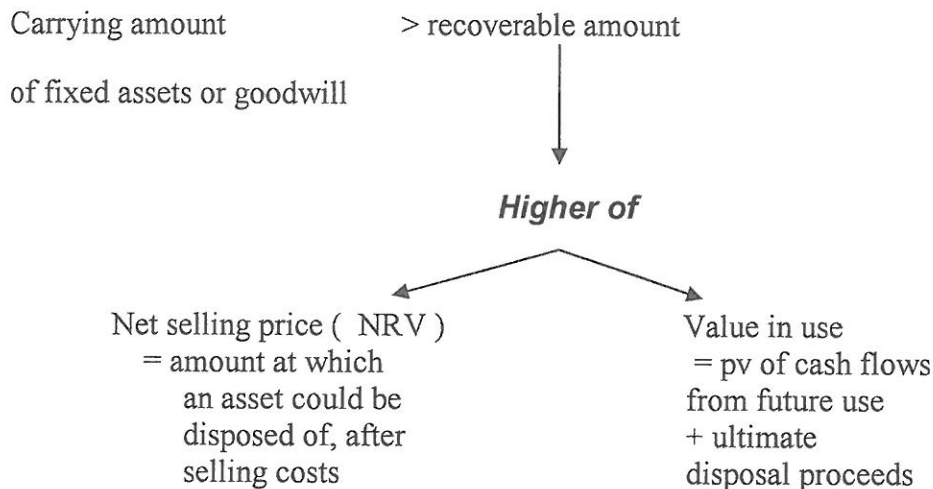
Note: Inventory and Trade receivables are shown at their recoverable amounts.

REQUIRED:

To calculate the carrying amount of the intangibles once the impairment loss has been allocated?

The objective of FRS 102 is to set rules to ensure that the assets of an enterprise are carried at **no more than their recoverable amount**, defined as the higher of its net selling price and its value in use. **Impairment** is a reduction in the recoverable amount of a fixed asset or goodwill below its carrying value.

Impairment occurs when:



FRS 102 requires that at each balance sheet date an impairment review is undertaken to assess whether there are any indications that the value of an asset may be impaired. This can be a time consuming and subjective task and the standard identifies the following indicators as were to focus attention as impairment may have occurred:

- Fall in assets market value
- Changes in the technical, legal or economic environments that might have an adverse effect on the enterprise
- Changes in interests rates (change discounting factors and calculations of assets values)
- Carrying value of net assets is more than the market capitalization of the enterprise.
- Evidence of obsolescence or damage
- Changes in the use of the asset
- Evidence that the performance of the asset is worse than expected.

The measurement of an impairment loss is often subject but the best estimate should be made. If the recoverable amount of an asset is less than its carrying amount this constitutes an impairment loss which should be recognised immediately as an expense in the income statement.

The impairment would be allocated to goodwill first, then pro rata across other assets based on their carrying values. No asset should be reduced to below its recoverable amount, so inventory and receivables will remain unimpaired. After the goodwill of £80m has been impaired, the remaining £10m should be allocated to intangibles and PPE as follows:

	£m
Intangibles	100
PPE	<u>60</u>
Total	<u>160</u>

$$\text{Intangibles Impaired} = (100/160 \times 90) = 56.25$$

$$\text{Therefore, Intangibles } £100m - 56.25 = 43.75$$

The carrying amount of intangibles and PPE after impairment review are £50m and £30m respectively

	Before	Imp ^t	After
Goodwill	80	(80)	—
Intangibles	100	(56.25)	43.75
Property	60	(33.75)	26.25
Stock	80	—	80
Debtors	100	—	100
	420	(170)	250