
IAS - 36

Impairment of Assets

International Accounting Standard No. 36 (IAS 36)

Impairment of Assets

Objective

1. The objective of this Standard is to establish procedures that an entity applies to ensure that their assets are accounted for an amount not greater than its recoverable amount. An asset is carried above its recoverable amount if its carrying amount exceeds the amount that you can retrieve it through their use or sale. If this were the case, the asset is presented as impaired and the Standard requires an entity to recognize an impairment loss in value of that asset. In the Standard also specifies when an entity reverse the impairment loss in value, and the information disclosed.

Scope

2. **This Standard applies to accounting for impairment of value of all assets, other than:**
 - (a) **inventories (see IAS 2 Inventories);**
 - (b) **assets arising from construction contracts (see IAS 11 Construction Contracts);**
 - (c) **deferred tax assets (see IAS 12 Income Taxes);**
 - (d) **pay the proceeds to employees (see IAS 19 Employee Benefits);**
 - (e) **financial assets that are included in the scope of IAS 39 Financial Instruments: Recognition and Measurement;**
 - (f) **Investment property is valued according to its fair value (see IAS 40 Investment Property);**
 - (g) **biological assets related to agricultural activity, which are valued according to its fair value less selling costs (see IAS 41 Agriculture);**
 - (h) **deferred acquisition costs and intangible assets arising from the contractual rights of an insurer in insurance contracts that are within the scope of IFRS 4 Insurance Contracts and**
 - (i) **non-current assets (or alienable and disposable groups) classified as held for sale under IFRS 5 Non-current assets held for sale and discontinued operations.**
3. This Standard does not apply to inventories, assets arising from construction contracts, the deferred tax assets, assets arising from the remuneration of employees or assets classified as held for sale (or alienable in a group of items that remained classified as for sale) because existing Standards applicable to these assets contain specific

requirements for recognizing and valuing such assets.

4. This Standard is applicable to financial assets classified as:

(a) subsidiaries, as defined in IAS 27 Consolidated and Separate Financial Statements;

(b) partners, as defined in IAS 28 Investments in associates and

(c) joint ventures, as defined in IAS 31 Investments in joint ventures.

For the deterioration of the value of other financial assets, see IAS 39.

5. This Standard does not apply to financial assets that are included in the scope of IAS 39, investment property being valued according to its fair value in accordance with IAS 40, assets or related biological activity farm being valued according to its fair value less costs to sell, in accordance with IAS 41. However, this Standard applies to assets that are counted according to their revalued value (i.e. fair value) under other standards, such as the revaluation model in IAS 16 Property. Identifying whether a revalued asset may be impaired depends on the criteria used to determine fair value:

(a) If the fair value of assets is market value, the only difference between the fair value of the asset and its fair value less selling costs are incremental costs directly arising from the sale or disposal by other track of the asset:

(i) If the costs of sale or disposal by other means are negligible, the recoverable amount of the revalued asset is necessarily close to or greater than, its appreciated value (i.e. fair value). In this case, after applying the criteria of the revaluation is unlikely that the revalued asset is impaired, and therefore it is not necessary to estimate the recoverable amount.

(ii) If the costs of sale or other disposition by no means insignificant, the fair value less costs to sell of the revalued asset is necessarily less than its fair value. Accordingly, it will recognize the deterioration of the value of the revalued asset if its value in use is less than its revalued value (i.e. fair value). In this case, after applying the criteria of the revaluation, an entity applies this Standard to determine if the asset has suffered impairment or not the value of its value.

(b) If the fair value of assets is determined by a criterion other than their market value, its appreciated value (i.e. fair value) may be higher or lower than its recoverable amount. Therefore, after applying the criteria of the revaluation, an entity applies this Standard to determine if the asset has been or not a deterioration of its value.

Definitions

6. The following terms are used in this Standard with the meanings specified below:
An active market is a market where there are all the following conditions:

- (a) the items traded in the market are homogeneous;
- (b) you can always find buyers or sellers for a particular good or service and
- (c) prices are available to the public.

Date of agreement in a business combination is the date on which substantial agreement is reached between the parties involved in the combination and in the case of publicly listed entities; it is announced to the public. In the case of a hostile acquisition, the first time you get a substantial agreement between the parties involved in the combination, is that they have accepted the offer of the acquiring a number of owners of the acquiree that is sufficient to gain control over it.

Amount in books is the amount at which an asset is recognized, net of accumulated depreciation and impairment losses accumulated value.

A cash-generating unit is the smallest identifiable asset able to generate inputs that are effective, largely independent of cash flows from other assets or groups of assets.

Assets of the entity are assets other than goodwill that contribute to the achievement of future cash flows in the cash-generating unit that is being considered as in others.

Costs of sale or disposal by other means are incremental costs directly attributable to the sale or other disposition by way of an asset or cash-generating unit, excluding finance costs and income taxes.

Depreciable amount of an asset is its cost, or to replace that amount in the financial statements, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount that can be obtained from the sale of an asset or cash-generating unit in a transaction at arm's length, between stakeholders and duly informed, less costs of disposal or disposition in another way.

Impairment loss in value is the amount that exceeds the amount of an asset or cash-generating unit to its recoverable amount.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and value in use.

Useful life is:

(a) the period during which the assets are expected to be used by the entity or

(b) the number of production or similar units that are expected of it by the entity.

Value in use is the present value of future cash flows estimated to be expected from an asset or cash-generating unit.

Identifying an asset that could be damaged

7. In paragraphs 8 to 17 specifies when to determine the recoverable amount. They use the term "active", but it applies to an individual asset or a cash-generating unit. The rest of this Standard is structured as follows:

(a) Paragraphs 18 to 57 set the rules for the estimation of recoverable amount. Under these rules, the term "asset", but it applies to an individual asset or a cash-generating unit.

(b) Paragraphs 58 to 108 set the rules for the recognition and measurement of impairment losses in value. The recognition and valuation of losses in the value of individual assets, other than goodwill is discussed in paragraphs 58 to 64. Paragraphs 65 to 108 deal with the recognition and valuation of losses in the value of cash generating units and goodwill.

(c) Paragraphs 109 to 116 set the rules for the reversal of an impairment loss in value of an asset or a cash-generating unit recognized in previous years. Again, it is used in these paragraphs the term "active", but it applies to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 117 to 121, for a cash-generating unit in paragraphs 122 and 123, and for goodwill in paragraphs 124 and 125.

(d) In paragraphs 126 to 133 specifies the information to reveal about the value of losses and reversals of such losses for assets and cash generating units. Paragraphs 134 to 137 contain the requirements to disclose additional information to the cash-generating units of which have been circulated to goodwill or intangible assets with indefinite useful lives, in order to check their deterioration in value.

8. Deteriorate the value of an asset when its carrying amount exceeds its recoverable amount. In paragraphs 12 to 14 are some indicators to see if there is an impairment loss in value of an asset. If any of these indicators, the entity is obliged to make a formal

estimate of recoverable amount. Except as described in paragraph 10, this Standard does not require the entity to make a formal estimate of recoverable amount if you do not submit any evidence of an impairment loss of value.

- 9. An entity shall assess at each balance sheet date whether there is any sign of deterioration in value of an asset. If such indication exists, the entity shall estimate the recoverable amount of the asset.**
- 10. Regardless of the existence of any evidence of deterioration in value, the entity shall also:**
 - (a) Assess annually the impairment of the value of each intangible asset with an indefinite useful life, as well as intangible assets not yet available for use by comparing the amount of books to its recoverable amount. This verification of the deterioration in value can be made at any time during the year, provided that takes place on the same date each year. The verification of the deterioration of the value of intangible assets may be in various different dates. However, if an intangible asset was initially recognized during the current financial year, be verified at the deterioration of its value before the end of it.**
 - (b) Assess annually the impairment of the value of goodwill acquired in a business combination in accordance with paragraphs 80 to 99.**
- 11. The ability of an intangible asset to generate future economic benefits sufficient to recover the amount of books will be subject generally to greater uncertainty before the asset is available for use later. Accordingly, this Standard requires an entity to verify at least annually, the deterioration of the value of the carrying amount of an intangible asset not yet available for use.**
- 12. In assessing whether there is some indication that the asset may have seen its value impaired, the entity should consider at least the following circumstances:**

External sources of information

 - (a) During the year the asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.**
 - (b) During the year have taken place or will take place in the near future, significant changes with an adverse effect on the institution, concerning the legal environment, economic, technological or market in which it operates or in the market to which the asset is used.**
 - (c) During the year, market interest rates or other market rates of return on investments, and those increases are likely to affect the discount rate used to calculate the use value of the asset, so to decrease the amount recoverable**

significantly.

**(d) The amount of net assets of the entity is greater than its market capitalization.
Internal sources of information**

(e) There is evidence of obsolescence or physical damage of an asset.

(f) significant changes with an adverse effect on the body, which take place during the year or be expected to occur in the near future, in the form or how it is used or expected to use the asset. These changes include the fact that the asset is idle, plans to restructure or interrupt the activity to which the asset belongs, plans to transfer or otherwise disposal of the asset before the due date, and as the review of the finite life of an asset previously considered indefinitely.

(g) There is evidence from internal reporting that indicates that the economic performance of the asset is, or will be, worse than expected.

Dividends from subsidiaries, jointly-controlled entities or associated

(h) for an investment in a subsidiary, jointly controlled entity or associate, the investor recognizes a dividend from the investment and there is evidence that:

**(i) the amount of investment in the separate financial statements exceeds the amount of books in the consolidated financial statements of net assets of the entity that has been invested, including the goodwill associated with,
or**

(ii) the dividend exceeds the overall total of the subsidiary, jointly controlled entity or associate in the period in which it has been decided.

13. The list in paragraph 12 is not exhaustive. An entity may identify other indications for which the asset value may be impaired, which also requires it to determine the recoverable amount of assets or in the case of goodwill, to check the deterioration in value in accordance with paragraphs 80 to 99.

14. Evidence obtained through internal reports, which indicate a deterioration in the value of assets, including the existence of:

(a) cash flows for acquiring the asset, or subsequent cash needs to operate or maintain it, which is significantly higher than originally budgeted;

(b) actual net cash flows, or results derived from the exploitation of assets, which are significantly worse than budgeted;

(c) a significant decrease in net cash flows or operating profit budget, or a significant increase in losses from the originally budgeted asset, or

(d) operating losses or negative net cash flows for the asset, when current period figures are additional to those budgeted for the future.

15. As indicated in paragraph 10, this Standard requires checking at least annually, the deterioration of the value of an intangible asset with an indefinite useful life or not yet available for use and goodwill. Regardless of when they apply the requirements of paragraph 10, the concept of materiality is applied to identify whether it is necessary to estimate the recoverable amount of an asset. For example, if previous calculations show that the recoverable amount of an asset is significantly higher than their book value, the entity need not re-estimate the recoverable amount, provided that no event has occurred that would have eliminated this difference. In a similar way, preliminary analysis may show that the recoverable amount of an asset is not sensitive to one or more of the indications listed in paragraph 12.

16. As an illustration of what is stated in paragraph 15, if market interest rates or other market rates of return on investments had increased over the period, the entity shall not be obliged to make a formal estimate of recoverable amount of assets where:

(a) Where it is probable that the discount rate used to calculate the use value of the assets will be affected by the increase in these types of market. For example, increases in interest rates in the short term may not have a significant effect on the discount rate applied to an asset to which it still remains a long life.

(b) Where it appears likely that the discount rate used to calculate the use value of the asset will be affected by the increase in these market rates but previous sensitivity analysis on the recoverable amount shows that:

(i) is unlikely to be producing a significant decrease in the recoverable amount, it is likely that the future cash flows are increased (for example, in some cases, the entity would be able to demonstrate that it can adjust its revenue to offset any increase in market rates), or

(ii) It is unlikely that the decrease in the recoverable amount is an impairment of value that is significant.

17. If there is some indication that the asset may have damaged its value, this may indicate that the remaining useful life, the depreciation method used or the residual value of assets, need to be reviewed and adjusted in accordance with the rules applicable in this active, even if ultimately not recognize any impairment in value for the asset in question.

Assessment of recoverable amount

18. This Standard defines recoverable amount of an asset or a cash-generating unit as the higher of its fair value less costs to sell and value in use. In paragraphs 19 to 57 set out the requirements for determining the recoverable amount. They use the term "active", but it applies to an individual asset or a cash-generating unit.
19. It is not always necessary to calculate the fair value of the asset less costs to sell and its value in use. If any of these amounts exceeds the asset's carrying amount, it would not have suffered deterioration in its value, and therefore would not be necessary to calculate the other value.
20. It is possible to calculate the fair value of the asset less costs to sell, even if he is not traded on an active market. However, sometimes it is not possible to determine the fair value of the asset less costs to sell, for lack of basis for a reliable estimate of the amount that could be obtained by selling assets in a transaction in terms of independence between stakeholders and adequately informed. In this case, the entity may use the value of the asset for use as its recoverable amount.
21. If there is reason to believe that the use value of an asset significantly exceeds its fair value less costs to sell, will be considered the latter as its recoverable amount. This is often the case of an asset that remains to be disposed of or dispose of it in another way. This is because the use value of an asset that remains to be disposed of or dispose of it otherwise consist primarily of net proceeds of sale or disposal by other means, since future cash flows, derived from its continued use until the sale or disposal by other means, likely to be negligible for the calculation.
22. The recoverable amount is calculated for an individual asset, unless the asset does not generate cash entries as they are, largely independent of those from other assets or groups of assets. If this were the case, the recoverable amount is determined for the cash-generating unit to which the asset (see paragraphs 65 to 103), unless:
 - (a) the fair value of the asset less costs to sell is greater than its book value, or
 - (b) considers that the use of the asset value is close to its fair value less costs to sell, and this amount can be determined.
23. In some cases, for determining the fair value of the asset less costs to sell or value in use, estimates, averages and other simplifications in the calculation can provide a reasonable approximation to the numbers that would result from more detailed calculations as illustrated in this Standard.

Assessment of the recoverable amount of an intangible asset with an indefinite

useful life

24. Paragraph 10 requires that you check the annual value of an impairment of intangible assets with indefinite useful lives, by comparing the amount of books to its recoverable amount, irrespective of the existence of any evidence of deterioration in value. However, recent calculations could be used more detailed recoverable amount made in the preceding year to check the deterioration of the value of that asset in the current period, provided they meet the following requirements:

(a) in the case of intangible assets that do not generate cash entries that are largely independent of those flows from other assets or groups of assets and thus verify its deterioration in value as part of the unit generating cash to which he belongs, that the assets and liabilities that comprise this unit have not changed significantly since the most recent calculation of the amount recoverable;

(b) the calculation of the most recent recoverable amount would result in an amount that exceeds by a significant margin, the amount of the asset, and

(c) that, based on an analysis of the events and circumstances that have occurred and circumstances that have changed since that was the most recent calculation of the amount recoverable, the likelihood that the recoverable amount is less than the current book is remote .

Fair value less costs to sell

25. The best evidence of fair value of the asset less costs to sell is the existence of a price, within formal sales in a transaction at arm's length, adjusted for incremental costs directly attributable to the disposition or disposal of assets by other means.

26. Absent a formal sales, but the assets are traded in an active market, fair value of the asset less costs to sell would be the market price of the asset less the costs of sale or disposal by other means. The appropriate market price is usually the current price buyer. If there is no buyer's current price, the price of the most recent transaction may provide the basis for estimating the fair value of the asset less costs to sell, if they have not produced significant changes in economic circumstances between the date of the transaction and the date on which the estimate is made.

27. If there is no firm agreement to sell or an active market, fair value less selling costs will be calculated from the best information available to reflect the amount the entity could obtain, at the balance sheet date, in a transaction at arm's length between the parties involved and informed, after deducting the costs of sale or disposal by other means. To determine this amount, the agency will consider the outcome of recent transactions in similar assets in the same industry. The fair value of the asset less costs to sell does not

reflect a forced sale, unless management is compelled to sell immediately.

28. The cost of disposal by sale or otherwise, other than those that have already been recognized as liabilities, are deducted in calculating the fair value less costs to sell. Examples of these costs are the costs of legal, tax stamps and other similar transaction, the costs of dismantling or moving assets, as well as other incremental costs for the assets left in for sale. However, severance payments (as defined in IAS 19) and other costs associated with downsizing or reorganization of a business involving the sale or other disposition by way of an asset, are not directly related and incremental costs attributable to the sale or disposal by other means.
29. Sometimes, the sale or other disposition by way of an asset may require the buyer to assume a liability and can only have a single fair value less costs to sell the combination of the assets and liabilities. In paragraph 78 explains how to deal with such cases.

Use value

- 30. The following elements should be reflected in calculating the use value of an asset:**
- (a) an estimate of future cash flows the entity expects to obtain the asset;**
 - (b) expectations about possible variations in the amount or timing of future cash flows;**
 - (c) the time value of money, represented by the market interest rate without risk;**
 - (d) the price by the presence of uncertainty inherent in the asset, and**
 - (e) other factors such as illiquidity that market participants would reflect in pricing the future cash flows the entity expects to derive the asset.**
31. The estimate of use value of an asset involves the following steps:
- (a) estimate future inflows and outflows of cash arising from the continued use of the asset and its sale or disposal by other means final, and
 - (b) apply the appropriate discount rate to these future cash flows.
32. The elements identified in paragraphs (b), (d) and (e) of paragraph 30 may be reflected as adjustments to future cash flows or as adjustments to the discount rate. Whatever the approach taken by the institution to reflect expectations about possible variations in the amount or timing of future cash flows, the result will reflect the present value of expected future cash flows, i.e. the weighted average all possible outcomes. Appendix A provides

additional guidance on the use of techniques for calculating the present value in determining the use value of an asset.

Basis for estimating future cash flows

33. In determining the use value of the entity:

(a) base projections of cash flows and based on reasonable assumptions, which represent the best estimates of management on the overall economic conditions that will be presented throughout the remaining life of the asset. Will be given greater weight to evidence outside the entity.

(b) base projections of cash flows in budgets or financial forecasts latest 10 have been approved by management, but excluding any estimate of entry or exit of cash that is expected to arise from future restructurings or from improving the performance of the assets. Projections based on these budgets and forecasts shall cover a maximum period of five years unless a longer period can be justified.

(c) estimate the projected cash flows after the period covered by budgets or financial forecasts latest extrapolating earlier projections based on such budgets and forecasts for subsequent years using scenarios with a growth rate constant or decreasing unless it could justify the use of an increasing rate over time. This kind of growth does not exceed the average long-term growth for the products or industries, as well as for the country or countries in which the entity operates and the market where the asset is used, unless can justify a higher growth rate.

34. The management will evaluate the reasonableness of the assumptions on which projections are based on current cash flows, examining the causes of differences between the projected cash flows and flows past. The management will ensure that the assumptions on which they based their projections of cash flows are uniform flows with the actual results achieved in the past, whenever the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated , permit.

35. In general, it often does not have budgets or financial forecasts that are detailed, explicit and reliable for periods longer than five years. For this reason, estimates made by management on the future cash flows are based on budgets or the most recent forecasts for up to five years. Management may use cash flow projections based on budgets or financial projections for a period of five years, provided it is certain that they are reliable and can demonstrate their ability, based on past experience, to predict cash flows precisely in such long periods of time.

36. The projections of cash flows until the end of the useful life of assets was estimated by extrapolating the cash flow projections based on financial budgets and forecasts using a growth rate for subsequent years. This rate will be steady or declining, unless the information indicates that an increasing rate fits the pattern that follows the lifecycle of the product or industry. If appropriate, the growth rate could be zero or negative.

37. When the conditions are favorable, it is likely that competitors enter the market and restrict growth. Therefore, banks may find it difficult to overcome the historical average growth rate over the long term (e.g., twenty years), covering products, industry, country

or countries in which the entity operates, or market that the asset is used.

38. Using information from budgets or financial forecasts, an entity shall consider whether the information reflects reasonable assumptions and rationale, and if it represents the best estimate of the direction on the set of economic conditions that exist during the remaining useful life of the asset.

Composition of estimated future cash flows

39. Estimates of future cash flows include:

(a) projections of cash entries from the continued use of the asset,

(b) projections of cash outflows and where necessary to incur to generate the cash inflows of the continued use of the asset (including, if the payments are necessary to prepare the asset for use) and can be directly attributed, or distributed as a reasonable and uniform basis to the asset and

(c) the net cash flows, if any, will receive (or pay) for the sale or disposition of assets by other means, at the end of its useful life.

40. Estimates of future cash flows and the discount rate will take into account the hypothesis of uniform price increases due to inflation. Therefore, if the discount rate include the effect of price increases due to inflation, future cash flows are estimated in nominal terms. If the discount rate exclude the effect of price increases due to inflation, future cash flows are estimated in real terms (but include future increases or decreases in the specific price).

41. Projections of cash outflows include those related to the daily maintenance of assets, as well as future overheads that can be attributed directly, or distributed on a reasonable and uniform basis, the use of the asset.

42. When the amount of the asset does not yet include all the cash outflows to be made before it is ready for use or sale, the estimate of future payments will also include an estimate of any cash-out in which is expected to incur before the asset is ready for use or sale. This is the case, for example, a building under construction or development of a project not yet completed.

43. To avoid duplication, the estimated future cash flows do not include:

(a) Entries cash from assets that generate cash entries that are largely independent of the inputs from the assets being reviewed (e.g., financial assets such as receivables items) and

(b) Payments related to obligations that have already been recognized as liabilities (for example, payables, pensions or provisions).

- 44. The future cash flows are estimated for the asset, given its current state. These estimates do not include future payments or receipts that may be caused by:**

(a) a future restructuring to which the entity has not yet committed, or

(b) to increase future costs to replace an asset or part thereof, or for maintenance of these items.

45. Since the future cash flows are estimated for the asset in its present use value will not reflect:

(a) future cash outflows or related cost savings (e.g. staff reductions), or other benefits that are expected to arise from a future restructuring to which the entity has not been committed so far, or

(b) future costs to enhance or replace the active part of it or to keeping neither these items, nor the future benefits that are related to those future costs.

46. A restructuring program is a planned and controlled by management, the effect of which is a significant change in the activity carried out by the entity or the way it is managed. In IAS 37 Provisions, contingent liabilities and contingent assets are specified when the entity is engaged in a restructuring.

47. Where an entity is engaged in a restructuring, it is likely that some of its assets are affected by development. Once the entity is involved in this restructuring process:

(a) to determine value in use, their estimates of future inflows and outflows of cash flows reflect the cost savings and other benefits expected from the restructuring (based on budgets and financial forecasts approved by the most recent address) and

(b) its estimates of future cash outflows for the restructuring itself, are included in the provision for restructuring, as set out in IAS 37.

In Example 5 illustrates the effect of restructuring on future calculations of the value in use.

48. Until the entity conducting the cash outflows required to improve or enhance the performance of assets, estimates of future cash flows do not include estimates of cash entries are expected from the resulting increase in economic benefits associated with the cash outflow (see Illustrative Example 6).

49. Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits arising from the anticipated asset in its current state. When a cash-generating unit is composed of assets with different estimated useful lives, all of them essential to the operation of the unit, the replacement of assets with shorter useful lives are considered as part of the daily maintenance of the unit, to estimate future cash flows associated with it. In like manner, when an asset is considered individually composed of components with different estimated useful lives, the replacement of components with shorter lives is considered part of daily maintenance of the asset when estimating the future cash flows it generate.

50. Estimates of future cash flows do not include:

(a) entries or cash outflows from financing activities, nor

(b) the receipt or payment of tax on profits.

51. The estimated future cash flows reflect assumptions that are consistent with the manner of determining the discount rate. Otherwise, the effect produced by some of the assumptions would double or ignore. Since the time value of money is already considered by deducting the estimated future cash flows, these cash flows exclude cash inflows and outflows from financing activities. In a similar way, as the discount rate is determined before taxes, cash flows were also estimated before income taxes.

52. The estimate of net cash flows to receive (or pay) for the sale or other disposition by way of an asset at the end of its useful life, the amount that the entity expects to obtain from the sale of the item in a transaction at arm's length between the parties involved and informed, after deducting the estimated costs of the sale or disposal by other means.

53. The estimate of net cash flows to receive (or pay) for the sale or other disposition by way of an asset at the end of its useful life is determined by similar to the fair value of the asset less costs to sell, except in the estimation of these net cash flows:

(a) the entity has used prices at the date of the estimate for similar assets that have reached the end of its useful life and have been operating under conditions similar to those in which the assets will be used.

(b) the entity has adjusted these prices for the effect of increases due to inflation, and increases or decreases in specific prices. However, if both the estimated future cash flows from continued use of assets, as the discount rate exclude the effect of general inflation, the entity also excludes the effect of estimated net flows of cash from the sale or disposition of assets by other means.

Future cash flows in foreign currency

54. The future cash flows are estimated in the currency in which they will be generated and updated using the appropriate discount rate for that currency. The body will convert the present value using the spot exchange rate at the date of calculating the value in use.

Discount rate

55. The type or types of discount rates used are pre-tax, reflecting current market assessments for:

(a) the time value of money, and

(b) the specific risks of the asset for which estimates of future cash flows have not been adjusted.

56. A type that reflects current assessments of the time value of money and the risks specific to the asset, is the return that investors require, if you choose an investment that generates cash flow amounts, timing and risk profile equivalent to the that the entity expects to obtain the asset. This discount rate is estimated from the rate implicit in

current market transactions for similar assets, or as the weighted average cost of capital of a listed entity that has a single asset (or a portfolio of assets) similar to that being considered in terms of service potential and risk borne. However, the discount rate used to determine the usefulness of an asset does not reflect risks for which have already been adjusted estimates of future cash flows. Otherwise, the effect of some assumptions will be taken into account twice.

57. If the rate that corresponds to a specific asset is not available directly from the market, the entity will use substitutes to estimate the discount rate. In Appendix A includes additional guidance on estimating the discount rate in these circumstances.

Recognition and measurement of impairment loss in value

58. In paragraphs 59 to 64 set out the requirements for the recognition and valuation of losses for impairment of assets other than individual goodwill. The recognition and valuation of losses in the value of cash generating units and goodwill are discussed in paragraphs 65 to 108.
- 59. The carrying amount of an asset is reduced until it reaches its recoverable amount if, and only if, the recoverable amount is less than the amount of books. This reduction is called impairment loss of value.**
- 60. The value of the impairment loss is recognized immediately in income for the year, unless the asset is carried by its revalued in accordance with another Standard (e.g. in accordance with the revaluation model under IAS 16). Any impairment loss of value, revalued assets, is treated as a revaluation decrease under that other Standard.**
61. An impairment loss in value associated with a non-revalued asset is recognized in results. However, an impairment loss in the value of a revalued asset shall be recognized in another overall result, to the extent that the declining value does not exceed the amount of the revaluation surplus for that asset. This impairment loss of the value of a revalued asset revaluation reduces the surpluses of these assets.
- 62. Where the estimated amount of an impairment loss in value is greater than the amount of the asset to which it relates, the entity shall recognize a liability if and only if, it is bound by another Standard.**
- 63. Following the recognition of an impairment loss of value, charges for depreciation of assets will be adjusted in future periods in order to distribute the revised book value of assets, less its residual value possible, in a systematic way to over its useful life remaining.**
64. If a recognized impairment loss of value, also specifies the assets and deferred tax liabilities associated with it, by comparing the book value of assets with the revised tax base in accordance with IAS 12. (See Example 3).

Cash generating units and goodwill

65. In paragraphs 66 to 108 set out the requirements for identifying the cash generating units to which the assets and to determine the amount of books and recognize

impairment losses in the value corresponding to the cash-generating units and goodwill.

Identifying the cash-generating unit to which a particular asset

66. If there is any indication of impairment of the value of an asset, the recoverable amount is estimated for the assets individually considered. If it was not possible to estimate the recoverable amount of the individual asset, the entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the cash-generating unit of the asset).

67. The recoverable amount of an individual asset cannot be determined when:

(a) the use value of the asset cannot be estimated as close to its fair value less costs to sell (for example, where future cash flows by the continued use of the asset cannot be determined by negligible) and

(b) the asset does not generate cash entries that are largely independent of those produced by other assets.

In these cases, the use value and, therefore, the amount recoverable may be determined only from the cash-generating unit of the asset.

Example:

A mining entity owns a private railway to support activities in a mine. The private railway could be sold only for its scrap value, and does not generate cash entries that are largely independent of the inputs that correspond to the other assets of the mine. It is not possible to estimate the recoverable amount of the private railway because its value in use cannot be determined, and probably is different from its value as scrap. Therefore, the entity will have to estimate the recoverable amount of the cash-generating unit to which the railway, i.e. mine as a whole.

68. As defined in paragraph 6, the cash-generating unit of an asset is the smallest group of assets, including assets, cash generated entries that are largely independent of the inputs from other assets or groups of assets. Identifying the cash-generating unit of an asset involves making judgments. If you cannot determine the recoverable amount of an individual asset, the entity must identify the smaller set of assets, including the same, generating cash tickets that are largely independent.

Example:

An entity bus services under contract to a municipality that requires a certain minimum services for each of the five separate routes covering. The assets for each of the routes, and cash flows arising from each of them can be identified separately. One of the routes operated with significant losses. Since the entity does not have the option to suspend any of the routes served by buses, the lowest level of identifiable cash entries, which are largely independent of incoming

cash from other assets or groups of assets are entries of cash generated by the five routes together. The cash-generating unit for each route is the entity as a whole.

69. Entries are entries of cash and cash equivalents other than cash, received from parties outside the entity. To identify if the entries of cash from an asset (or group of assets) are largely independent of incoming cash from other assets (or groups of assets), the entity shall consider various factors, including how management monitors operations of the entity (e.g. product lines, businesses, individual locations, districts or regional areas) or how management makes decisions to continue or sell or otherwise dispose of the assets and operations of the entity. Illustrative Example 1 gives some examples of identification of cash-generating units.
- 70. If there is an active market for the products produced by an asset or group of assets, or other one was identified as a cash-generating unit, even if some or all products produced are used internally. If the entries of cash generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity shall use the best estimate of the direction of the price (s) future (s) which could be achieved in terms of transactions in mutual independence, estimating:**
- (a) future cash inputs used to determine the use value of the asset or cash-generating unit and**
- (b) the future cash outflows used to determine the usefulness of other assets or cash-generating units affected by internal transfer pricing.**
71. Although some or all of the output generated by an asset or group of assets being used by other units of the same entity (e.g., products of an intermediate stage in the production process), this asset or group of become a cash-generating unit if the entity can sell this product in an active market. This is because the asset or group of assets could generate cash tickets that would be largely independent of cash inflows of other assets or groups of assets. By using information based on budgets or financial forecasts, which are related to this cash-generating unit, or any other asset or cash-generating unit affected by internal transfer pricing, an entity adjusts this information if the domestic prices of transfer does not reflect the best estimate of the direction of future prices that could be made in transactions conducted at arm's length.
- 72. The cash-generating units are identified in a uniform manner from one period to another, and will consist of the same asset or types of assets, unless a change is warranted.**
73. If an entity determines that an asset belongs, in this exercise to a different cash-generating unit to which he belonged previous years, or the types of assets that form the cash-generating unit of the asset has changed, paragraph 130 required to disclose certain information on this cash-generating unit, if it had recognized an impairment loss or reversal of the value of it for the cash-generating unit.

Recoverable amount and carrying amount of a cash-generating unit

74. The recoverable amount of a cash-generating unit is the higher of fair value less costs to sell the unit and its value in use. For purposes of determining the recoverable amount of the cash-generating unit, the references in paragraphs 19 to 57 to "active" shall be construed to "cash-generating unit."
- 75. The amount of a cash-generating unit is determined in a uniform manner with the way they calculate the recoverable amount of the same.**
76. The amount of a cash-generating unit:
- (a) include the amount of books just for those assets that can be directly attributed, or distributed as a reasonable and uniform, the cash-generating unit and to generate future cash inputs used in determining the usefulness of the unit and
 - (b) not include the amount of any liability recognized, unless the recoverable amount of the cash-generating unit cannot be determined without regard to such liability. This is because the fair value less costs to sell and value in use of a cash-generating unit are determined excluding cash flows related to assets that are not part of the unit and liabilities that are already have entered (see paragraphs 28 and 43).
77. Where the assets are grouped together to assess their recoverability, it is important to include in the cash-generating unit all assets that generate or are used to generate the relevant input flows of cash. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact there has been an impairment loss of value. In some cases there is the fact that, although certain activities may contribute to the production of the estimated future cash flows of the cash-generating unit cannot be distributed in a fair and uniform to the unit in question. This might be the case for goodwill or the common assets of the entity as the registered office. In paragraphs 80 to 103 explains how to deal with these assets, to ascertain whether the cash-generating unit has deteriorated in value.
78. It might be necessary to consider some liabilities recognized in determining the recoverable amount of the cash-generating unit. This could happen if the sale or disposal by other means of that unit, forcing the buyer to assume a liability. In this case, the fair value less costs to sell (or the estimated cash flow from the sale or disposal by other means, the end of its useful life) of the cash-generating unit is the estimated selling price of the assets of the cash-generating unit and liabilities, together, less the costs relating to the sale or disposal by other means. To perform a proper comparison between the amount of the cash-generating unit and its recoverable amount will be deducted the amount of the liabilities when calculating the value of using the unit as the amount of books.

Example:

An entity operates a mine in a country where the law requires that owners rehabilitate the land when mining operations end. The cost of restoration includes the replacement of the layers of soil that had to be extracted from the mine before the operation began. Therefore, it has recognized a provision to cover replacement costs from the time that the earth was removed. The amount of the provision has been recognized as part of the cost of the mine and is being amortized over the life of it. The amount of the provision for

replacement costs amounting to \$ 500(a), which corresponds to the current value of replacement costs.

The agency is checking the possible deterioration of the value of the mine. The cash-generating unit of the mine is the mine itself as a whole. The entity has received several offers to purchase the mine; with prices around \$ 800. This price reflects the fact that the buyer will assume the obligation to rehabilitate the land. The costs of sale or otherwise disposal of the mine are negligible. The usefulness of the mine is about \$ 1200, excluding costs of rehabilitation. The amount of the mine is \$ 1,000.

The fair value less costs to sell of the cash-generating unit is \$ 800. This amount has been considered the impact of the costs of rehabilitation. As a result, the usefulness of the cash-generating unit is determined after considering the costs of rehabilitation, and is estimated at a value of \$ 700 (\$1,200 less \$ 500). The amount of the cash-generating unit is \$ 500, the same amount of the mine (\$ 1000) minus the amount of the provision for rehabilitation costs (\$ 500). Therefore, the recoverable amount of the cash-generating unit exceeds its book value.

(a) In this Standard, monetary amounts are expressed in "currency units" (\$).

79. For practical reasons, the recoverable amount of a cash-generating unit is determined, at times, after taking into account the assets that are not part of the unit (e.g., accounts receivable or other financial assets) or liabilities that have been recorded (for example, payables, pensions and other provisions). In these cases, the amount of the cash-generating unit is increased by the amount of these assets and are reduced by the amount of liabilities.

Goodwill

Allocation of goodwill to cash generating units

80. For the purpose of checking the deterioration in value, goodwill acquired in a business combination is allocated, from the date of acquisition, between each of the cash-generating units or groups of cash generating units of the acquiring , which is expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to be distributed among the goodwill:

(a) represent the lowest level within the entity to which the goodwill is monitored for internal management purposes and

(b) may not be more than one operating segment determined in accordance with IFRS 8 Operating Segments.

81. Goodwill acquired in a business combination represents a payment made by the purchaser, by way of the future economic benefits arising from assets that cannot be

individually identified and recognized separately. Goodwill does not generate cash flows independently from other assets or groups of assets, and often helps to generate the cash flows of multiple cash-generating units. Sometimes the goodwill may not be distributed, based on criteria that are not arbitrary, between the individual cash generating units, but only between groups of cash generating units. As a result, the lowest level within the entity to which the goodwill is monitored for internal management purposes including, at times, a number of cash-generating units to which goodwill relates, but cannot be distributed among them. The references in paragraphs 83 to 99 to the cash-generating units, which is distributed to goodwill, be read as references also apply to groups of cash generating units to be distributed among the goodwill.

82. The implementation of the requirements of paragraph 80 will lead to the verification of the deterioration of the value of goodwill at a level that reflects how the entity manages its operations and to which the goodwill would naturally associated. Accordingly, it is necessary to develop systems of information.
83. A cash-generating unit to which goodwill has been circulated for the purpose of checking the deterioration in value, could not match the level at which goodwill is distributed in accordance with IAS 21 The Effects of Changes in exchange rates of foreign currency for the purpose of assessing the losses and gains in foreign currency. For example, if IAS 21 requires the entity to distribute the fund trading at relatively low levels in order to assess gains and losses on foreign currency, is not required to check the deterioration of the value of goodwill at the same level, unless it also controls the goodwill at that level for internal management purposes.
- 84. If the initial allocation of goodwill acquired in a business combination could not be completed before the end of the year in which the business combination took place, the initial distribution was completed by the end of the first fiscal year beginning after the date of acquisition.**
85. In accordance with IFRS 3 Business Combinations, if the initial accounting of a business combination could be determined only provisionally at the end of the year in which it was effected, the acquirer:
- (a) account for the combination using those provisional values and
 - (b) recognize, for purposes of completing the initial accounting, any adjustment to be made to these provisional values, within twelve months from the date of acquisition. In these circumstances, it might also be possible to complete the initial allocation of goodwill acquired in the combination before the close of the fiscal year in carrying out the business combination. When this is the case, the entity shall disclose the information required in paragraph 133.

86. If had been distributed goodwill to cash-generating unit and the entity disposes of or otherwise have an activity within that unit, goodwill associated with the activity: (a) shall be included in the amount of activity when determining the outcome from the sale or disposal by other means, and

(b) shall be assessed from the relative values of the assets transferred or disposed of by other means and the portion of the cash-generating unit is continuing, unless the entity can demonstrate that some other method better reflects the substance trading activity associated with the disposition or otherwise prepared.

Example:

An entity sells for 100 \$ a farm which was part of a cash-generating unit to which had been circulated from the goodwill. Goodwill distributed to the unit cannot identify or associate with a group of assets to a level lower than that unit, except that it applies arbitrary criteria. The recoverable amount of the share of the cash-generating unit that remains is 300 \$

Because the goodwill distributed to the cash-generating unit cannot be identified or associated, without using arbitrary criteria, with a group of assets to a level lower than that unit, goodwill associated with the divested business will be assessed based on the relative values of the divested business and the share of the cash-generating unit which remains. Consequently, 25 percent of the goodwill circulated to the cash-generating unit is included in the amount of the assets sold.

87. If an institution reorganized its reporting structure so that changing the composition of one or more cash-generating units to which it has distributed the goodwill will be redistributed between the amount of the units concerned. This redistribution is obtained using a method based on the relative values, similar to that used when the entity has disposed of or otherwise of an activity within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganized units.

Example:

The goodwill has been distributed to the cash-generating unit A. The goodwill allocated to the unit A cannot be identified or associated with a group of assets to a level below the unit A, except that it applies arbitrary criteria. A unit will be divided and integrated into other cash-generating units B, C and D.

Because the goodwill allocated to A cannot be identified or associated with a group of assets to a level lower than the drive without applying arbitrary criteria, it will be

deployed to units B, C and D on the basis of the relative values of the three parties that make up A, before those parts are integrated with B, C and D.

Checking the deterioration in value for the cash-generating units with goodwill

88. When, as defined in paragraph 81, goodwill is related to a cash-generating unit but could not be distributed to it, this unit is subject to verification of the deterioration of its value, if there are indications their value may have deteriorated, by comparing the amount of the unit, excluding goodwill, with its recoverable amount. Any impairment loss in value is recognized in accordance with paragraph 104.

89. If a cash-generating unit, as described in paragraph 88 amount to include in its books an intangible asset that had an indefinite useful life or not yet available for use, and this asset can only be subjected to verification of the deterioration of value as part of the cash-generating unit, paragraph 10 requires that the unit is also subject to verification of deterioration in value annually.

90. A cash-generating unit to which goodwill has been distributed, shall be subject to verification of the deterioration in value annually, and also if there are indications that the unit may have deteriorated, by comparing the amount of the unit, including goodwill, the recoverable amount of the same. If the recoverable amount of the unit exceeds its book value, unity and goodwill attributed to that unit is considered not impaired. If the amount of the unit exceeds its recoverable amount, the entity shall recognize the impairment loss in value in accordance with paragraph 104.

Minority interests

91. In accordance with IFRS 3, goodwill recognized in a business combination represents the goodwill acquired by a dominant based on their ownership, and no amount of goodwill by the same control as a result of the business combination. Therefore, goodwill attributable to minority interests are not recognized in the consolidated financial statements of the parent. Therefore, if there are minority interests in a cash-generating unit, which had been spread goodwill, the amount of this unit include:

(a) the participation of both the dominant and the corresponding minority interest in net assets of the unit and

(b) the involvement of the dominant goodwill.

However, the recoverable amount of the cash-generating unit, determined in accordance

with this Standard, will be attributable to minority interest in goodwill.

92. Consequently, for the purposes of checking the decline in value of the cash-generating units with goodwill for which you do not have full ownership, is theoretically adjusted carrying amount of that unit, before being compared with its recoverable amount. This adjustment is done by adding the amount of the goodwill distributed to the unit, the goodwill attributable to minority interests. The book theoretically adjusted cash generating unit will be compared with its recoverable amount to determine if the unit has deteriorated. If so, the entity will distribute the value of the impairment loss in accordance with paragraph 104, first reducing the amount of the goodwill distributed to the unit.
93. Nevertheless, because goodwill is recognized only to limit the participation of the parent, any impairment loss in value related to the goodwill is attributable to the spread between the dominant and the interest attributable to minority, but only the former is recognized as an impairment loss in value of goodwill.
94. If the total loss from the impairment of value on the goodwill is less than the amount by which the amount of books theoretically adjusted the cash-generating unit exceeds its recoverable amount, paragraph 104 requires that the excess surplus be distributed among the other assets of the unit, prorated according to the amount of each asset belonging to the unit.
95. Example 7 illustrates the verification of the deterioration of the value of a cash-generating unit with goodwill, which does not have full ownership.

Frequency of checking the decline in value

96. **The annual deterioration of the value for a cash-generating unit to which goodwill has been distributed, can be made at any time during a year, whenever that takes place on the same date each year. Different cash-generating units could check the deterioration in value at different dates. However, whether all or some of the goodwill allocated to cash-generating unit had been acquired in a business combination during the current fiscal year, the unit checks its deterioration in value before the end of the current fiscal year.**
97. **If it is established that the deterioration of assets constituting the cash-generating unit to which goodwill has been distributed, while the units containing the goodwill, it will check the deterioration of the value of these assets before the unit containing the goodwill. In a similar way, if you check the deterioration of the value of the cash-generating units constituting a group of units that have been distributed to goodwill, while the group of units containing the goodwill, individual units shall be tested before the group of units containing the goodwill.**

98. At the time of checking the deterioration of the value of a cash-generating unit to which has been distributed goodwill there might be signs of deterioration in the value of an asset within the unit containing the goodwill. In these circumstances, the entity shall verify the deterioration of asset value in the first place, and recognize any impairment loss for that asset's value, before checking the deterioration of the value of the cash-generating unit containing goodwill. In a similar vein, there may be signs of deterioration in the value of a unit cash-generating part of a group of units containing the goodwill. In these circumstances, the agency will check the first decline in the value of the cash-generating unit and recognizes any impairment loss in value of that unit before checking the deterioration of the value of the group of units in which the fund has distributed trade.

99. The most recent detailed calculations carried out last year, the recoverable amount of a cash-generating unit to which goodwill has been circulated, could be used for verification of the deterioration of the value of that unit during the current period, provided they meet the following requirements:

(a) the assets and liabilities that comprise this unit have not changed significantly since the calculation of the most recent recoverable amount;

(b) the calculation of the most recent recoverable amount, resulting in an amount exceeding the amount of the unit by a significant margin, and

(c) based on an analysis of the events that have occurred, and the circumstances that have changed since that was the most recent calculation of recoverable amount, the probability of determining the recoverable amount is less than the current amount of current books of this unit is remote.

Assets of the entity

100. The assets include assets of the entity or group of divisions, as the building is the headquarters of the entity or a division, the common use of equipment or research center of the entity. The structure of the entity that determines whether a particular asset meets the definition of the standard common asset of the entity, for a cash-generating unit in particular. The distinctive features of the common assets are entries that do not generate cash independently with respect to other assets or groups of assets, and that the amount of books can not be entirely attributed to the cash-generating unit being considered.

101. Because the assets of the entity does not generate cash tickets separately, the recoverable amount of an asset common considered individually, cannot be calculated unless the leadership has decided to sell or dispose of it in another way. As a result, if there is some indication that the asset may have damaged their common value, the recoverable amount is determined for the cash-generating unit or group of generating units to which the asset belongs common, and compared with books in the amount

corresponding to the unit or group of units. Any impairment loss in value is recognized in accordance with paragraph 104.

102. When checking whether a cash-generating unit has deteriorated its value, the entity will identify all assets that relate to that unit. If a portion of the amount of a common asset of the entity:

(a) may be distributed in a reasonable manner and consistent with that unit, the entity shall compare the amount of the unit, including the amount of the assets of the entity, with its recoverable amount. Any impairment loss in value is recognized in accordance with paragraph 104.

(b) It cannot be distributed evenly in a reasonable manner and to the unit, the entity:

(i) to compare the amount of the unit, excluding the assets to the entity, with its recoverable amount and recognize any impairment loss in value in accordance with paragraph 104;

(ii) identify the smallest group of cash generating units that includes a generating unit that is under consideration and to which the carrying amount of assets of the entity may be distributed on a fair and uniform, and

(iii) to compare the amount of that group of cash generating units, including the amount of the assets of the entity attached to that group of units, the recoverable amount of the group of units. Any impairment loss in value is recognized in accordance with paragraph 104.

103. Example 8 illustrates the application of the above requirements to the assets of the entity.

Impairment loss on the value of a cash-generating unit

104. It is a recognized impairment loss on the value of a cash-generating unit (the smallest group of cash generating units that had been distributed to the goodwill and assets of the entity) if and only if, the amount is less than the recoverable amount of the unit (or group of units). The impairment loss in value shall be allocated to reduce the amount of assets that make up the unit (or group of units) in the following order:

(a) first, reduce the amount of any goodwill distributed to the cash-generating unit (or group of units) and

(b) below, the other assets of the unit (or group of units), prorated according to the amount of each of the assets of the unit (or group of units).

These reductions in the amount of books will be treated as impairment losses in the value of individual assets and are recognized in accordance with the provisions of paragraph 60.

105. By distributing an impairment loss of value as set out in paragraph 104, the entity will not reduce the amount of an asset below the highest value among the following:

(a) its fair value less costs to sell (if it could be determined);

(b) its value in use (if it could be determined) and

(c) zero.

The amount of impairment loss of value that cannot be distributed to the asset in question, shall be allocated pro rata among the other assets that make up the unit (or group of units).

106. If impracticable to estimate the recoverable amount of each asset of the individual cash-generating unit, this standard calls for an arbitrary distribution of the 25 IAS 36 impairment loss in value between the assets of the unit are different from the goodwill, because all the assets of the cash-generating unit operating together.

107. If it was not possible to determine the recoverable amount of an individual asset (see paragraph 67):

(a) recognize an impairment loss in value for the asset when its carrying amount exceeds the book value increased from its fair value less costs to sell and value to it after the allocation made following the procedures described in paragraphs 104 and 105, and

(b) Does not recognize any impairment loss in value for the asset if the cash-generating unit is included in that would not have suffered any impairment loss in value. This applies even if the fair value less costs to sell the asset is less than its book value.

Example:

A machine has suffered a breakdown, but can still function, although not as good as it did before. The fair value less costs to sell the machine is less than its book value. The

machine does not generate cash tickets independently. The smallest identifiable group of assets that includes the machine and generates cash entries that are largely independent of the inputs of cash generated by other assets, is the production line in which it is installed. The recoverable amount of the production line as a whole shows that it has not suffered any impairment loss in value.

Scenario 1: budgets and forecasts approved by management reflect no commitment on the part of it, to replace the machine.

The recoverable amount of the machine, considered individually, cannot be estimated because the value of using it:

(a)

may be different from its fair value less costs to sell and

(b)

can be determined only by reference to the cash-generating unit to which the said machine (production line).

The production line has not suffered any impairment loss in value, so it will not recognize any impairment in value for the machine. However, the entity may need to reconsider the amortization period provided for or the method for calculating it. You may need to set a lower amortization period, or a more accelerated depreciation method to reflect the expected remaining useful life of the machine or the pattern of consumption by the entity, the economic benefits of the element .

Scenario 2: budgets and forecasts approved by management reflect a commitment to sell it and replace the machine in the near future. Cash flows arising from the continued use of the item until its sale or disposal by other means, are insignificant.

Can be estimated that the usefulness of the machine is very close to its fair value less costs to sell. Therefore, the recoverable amount of the machine can be determined without taking into account the cash-generating unit to which it belongs (i.e. the production line). Since the fair value less costs to sell the machine is less than its book value, will be recognized an impairment loss in value for the item.

108. After the implementation of the requirements of paragraphs 104 and 105, a liability is recognized for any outstanding amount of an impairment loss on the value of a cash-generating unit if, and only if requested by another Standard.

Reversal of impairment losses in value

109. In paragraphs 110 to 116 set out the requirements for reversing an impairment loss in value that has been recognized in prior periods for an asset or a cash-generating unit. They use the term "active", but it applies to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 117 to 121, for a cash-generating unit in paragraphs 122 and 123, and for goodwill in

paragraphs 124 and 125.

110. An entity shall assess at each balance sheet date whether there is any indication that the value of the impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or have decreased. If such indication exists, the entity shall estimate the recoverable amount of new assets.

111. In assessing whether there is evidence that the value of the impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or have decreased in amount, the entity shall consider, at least the following indications:

External sources of information

(a) During the year the asset's market value has increased significantly.

(b) During the year, have had, or will take place in the near future, with a significant positive effect for the institution, concerning the legal environment, economic, technological or market in which it operates or in market to which the target assets.

(c) During the year, market interest rates or other market rates of return on investment, have seen decreases are likely to affect the discount rate used to calculate the use value of assets, so that their recoverable amount has increased significantly.

Internal sources of information

(d) significant changes with an adverse effect on the body, which take place during the year or be expected to occur in the near future, in the form or how it is used or expected to use the asset. These changes include the costs incurred during the year to improve or develop the asset's performance or restructure the business to which the asset belongs.

(e) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.

112. Signs of potential reductions in the value of the impairment loss in paragraph 111 is a reflection primarily of evidence of potential losses in the value listed in paragraph 12.

113. If there are indications that an impairment loss of value, recognized for an asset other than goodwill, no longer exists or has decreased, this may indicate that the remaining useful life, the depreciation method or the residual value may need to be reviewed and adjusted according to the Standard that applies to the asset, even if not reverse the impairment loss in value for the asset.

- 114. Reversed the impairment loss in value recognized in prior periods for an asset other than goodwill, if and only if, there is a change in estimates used to determine the recoverable amount of the same, since the acknowledged the last impairment loss. If this were the case, increase the amount of the asset until it reaches its recoverable amount, except as provided in paragraph 117. This increase is designated as a reversal of an impairment loss of value.**
115. The reversal of impairment loss in value reflects an increase in estimated service potential of assets, either for use or sale, from the time the entity recognized the last impairment loss of asset value. Paragraph 130 requires an entity to identify changes in the estimates they have produced an increase in estimated service potential. Examples of changes in estimates:
- (a) a change in the basis of recoverable amount (i.e., when the recoverable amount is based on the fair value less costs to sell and value in use);
 - (b) if the recoverable amount is calculated from the value in use, a change in the amount or timing of estimated future cash flows or the discount rate, or
 - (c) if the recoverable amount is estimated from the fair value less selling costs, a change in the estimation of the components of fair value less costs to sell.
116. The usefulness of an asset may be greater than its book value, simply because the present value of future cash flows will increase as they are closer to the present moment. However, the service potential of the asset cannot be changed. Therefore, a loss on impairment of value is not reverse because of the passage of time (sometimes this is called "reversal of the discount), even if the recoverable amount of the asset becomes higher than its book value.

Reversal of impairment loss in value of an individual asset

- 117. The amount of an asset other than goodwill, increased after the reversal of an impairment loss of value, shall not exceed the amount of books that could have been obtained (net of depreciation) if it had not been recognized by a loss deterioration in value for the asset in prior years.**
118. Any increase in the amount of an asset other than goodwill, in excess of the amount of books that could have been obtained (net of depreciation), if there had been a recognized impairment loss of value in previous years, is a revaluation of assets. To account for these revaluations, the entity will use the Standard applicable to the asset.
- 119. The reversal of an impairment loss in value an asset other than goodwill, is recognized in income for the year, unless the asset is carried at revalued value, according to another standard (e.g. the model Revaluation of IAS 16). Any reversal**

of an impairment loss of value of value, a previously revalued asset is treated as a revaluation increase under that other Standard.

120. A reversal of an impairment loss of the value of a revalued asset is recognized in another, and increases the overall surplus on revaluation of that asset. However, to the extent that the impairment loss in value of revalued assets has been recognized previously in the outcome of the exercise, the reversal is recognized in income for the year.

121. **Having recognized a reversal of an impairment loss of value, charges for depreciation of assets will be adjusted for future periods, in order to distribute the revised book value of the asset less its residual value possible, in a systematic throughout their remaining lifespan.**

Reversal of impairment loss on the value of a cash-generating unit

122. **The amount of the reversal of an impairment loss of value in a cash-generating unit, is allocated among the assets of that unit, except for goodwill, pro rata amount depending on the amount of such assets. The increases in the amount of books will be treated as reversals of impairment losses in value for individual assets and are recognized in accordance with paragraph 119.**

123. **By distributing the reversal of an impairment loss of the value of a cash-generating unit according to the provisions of paragraph 122, the amount of each asset should not be increased above the lesser of:**

(a) its recoverable amount (if it could be determined) and

(b) the book (net of amortization or depreciation) had been determined not to have recognized the impairment loss in value of the asset in prior years.

The amount of the reversal of an impairment loss of value that you cannot distribute the assets according to the above criteria, shall be apportioned among the other assets that make up the unit, excluding goodwill.

Reversal of impairment loss in value of goodwill

124. **An impairment loss recognized in the value of goodwill is not reversed in subsequent years.**

125. IAS 38 Intangible Assets prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the years following the recognition of an impairment loss of value, will probably be an increase in internally generated goodwill, rather than a reversal of an impairment loss recognized for the value

goodwill acquired.

Information Disclosure

126. An entity shall disclose, for each asset class, the following information:

(a) the amount of impairment losses in value recognized in income for the year, as well as the item or items in the income statement in which such losses are included in the value.

(b) the amount of reversals of impairment losses in value recognized in income for the year and the part or parts of the income that such reversals are included.

(c) the amount of impairment losses in value of revalued assets recognized in other comprehensive result for the year.

(d) the amount of reversals of impairment losses in value of revalued assets recognized in other comprehensive result for the year.

127. A class of assets is a group of assets that have similar nature and use in the activities of the entity.

128. The information required by paragraph 126 may be submitted along with other information disclosed for each asset class. For example, such information could be included in a reconciliation of the carrying amount of the tangible assets at the beginning and end of the year, as required by IAS 16.

129. An entity that discloses segmented information in accordance with IFRS 8 disclose, for each segment, the following information:

(a) the amount of impairment losses in value recognized in income for the year as overall result in another year.

(b) the amount of reversals of impairment losses in value recognized in income for the year, as in other global result for the year.

130. An entity shall disclose the following information for each impairment loss or reversal of the value of significant amounts, which have been recognized during the year for an individual asset, including goodwill, or for a cash-generating unit:

(a) the events and circumstances that led to the recognition or reversal of an impairment loss of value;

(b) the amount of the impairment loss recognized or reversed in value;

(c) for each individual asset:

(i) the nature of the asset, and

(ii) whether the entity segment reporting under IFRS 8, the main segment to which the asset belongs.

(d) for each cash-generating unit:

a (i) a description of the cash-generating unit (e.g. if a product line, a factory, business transaction, a geographic area, or a segment of information of the entity as defined in IFRS 8);

(ii) the amount of the impairment loss recognized or reversed in value during the year, for each asset class and, if the entity presents segment information in accordance with IFRS 8, for each major segment of information, and

(iii) the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the recoverable amount of the cash-generating unit (if any), a description of how previous and current carrying After the grouping, and the reasons for changing the mode of identifying the unit in question.

(e) if the recoverable amount of the asset (or cash-generating unit) is the fair value less costs to sell or its value in use.

(f) in the event that the recoverable amount is the fair value less costs to sell, the criteria used to determine the fair value less costs to sell (for example if it is in reference to an active market).

(g) in the event that the recoverable amount is value in use, the discount rate or rates used in the current estimates and those made earlier (if any) of value in use.

131. The entity should disclose the following information for all the losses and reversals of the value of them, recognized during the year for which information was not disclosed in accordance with paragraph 130:

(a) the major classes of assets affected by impairment losses of value, and the major classes of assets affected by reversals of impairment losses in value.

(b) the main events and circumstances that led to the recognition of these losses in value and reversals of impairment losses in value.

132. It is advised to the entity to disclose information about the assumptions used to determine, during the year, the recoverable amount of assets (or units generating cash). However, paragraph 134 requires an entity to disclose information about the estimates used to determine the recoverable amount of a cash-generating unit when goodwill or an intangible asset with an indefinite useful life are included in the book that unit.

133. If, in accordance with paragraph 84, any part of the goodwill acquired in a business combination during exercise has not been distributed to any cash-generating unit (or group of units) on the date of the financial statements, the disclose both the amount of goodwill is not shared the reasons for that excess amount was not distributed.

Estimates used to assess the recoverable amount of the cash generating units containing goodwill or intangible assets with indefinite useful lives

134. An entity shall disclose the information required in paragraphs (a) to (f) below for each cash-generating unit (or group of units) for which the carrying amount of the goodwill or intangible assets with indefinite useful lives , have been distributed to the unit (or group of units) is significant compared with the total book value of goodwill or intangible assets with indefinite useful lives of the entity:

(a) The amount of the goodwill distributed to the unit (or group of units).

(b) The carrying amount of intangible assets with indefinite useful lives distributed to the unit (or group of units).

(c) The basis on which it was determined the recoverable amount of the unit (or group of units) (i.e., use value or fair value less costs to sell).

(d) If the recoverable amount of the unit (or group of units) is based on value in use:

(i) A description of each key assumption on which management has based its projections of cash flows for the period covered by budgets or most recent forecasts. Key assumptions are those to which the recoverable amount of units (or groups of units) is more sensitive.

(ii) A description of the approach used by management to determine the value or values assigned to each key assumption, as well as whether those values reflect past experience or, if they are consistent with external

sources of information and, if were not, how and why they differ from past experience or external sources of information.

(iii) The period over which management has projected cash flows or projections based on budgets approved by management and, when used longer than five years for a cash-generating unit (or group of units), a explanation of the reasons that justify the longer period.

(iv) The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets or forecasts and the reasons relevant if it had used a growth rate that exceeds the average long-term growth for the products, industries, or the country or countries in which the entity operates, or for the market to which the unit (or group of units) is dedicated.

(v) The rate or rates used to discount projected cash flows.

(e) If the recoverable amount of the unit (or group of units) is based on the fair value less costs to sell, the methodology used to determine the fair value less costs to sell. If the fair value less costs to sell has not been determined using an observable market price for the unit (group of units), also disclosed the following information:

(i) a description of each key assumption on which management has based its determination of fair value less costs to sell. Key assumptions are those to which the recoverable amount of units (or groups of units) is more sensitive.

(ii) A description of the approach used by management to determine the value (or values) assigned to each key assumption, whether those values reflect past experience or, if appropriate, whether they are consistent with external sources of information and, if not they were, how and why they differ from past experience or external sources of information. If the fair value less costs to sell is determined using projected discounted cash flows, they also reveal the following information:

(iii) The period in which management has projected cash flows.

(iv) The growth rate used to extrapolate cash flow projections.

(v) The rate or rates used to discount projected cash flows.

(f) if a reasonably possible change in a key assumption on which management has based its determination of the recoverable amount of the unit (or group of

units), assume that the amount of the unit (or group of units) exceeds its recoverable amount:

(i) the amount by which the recoverable amount of the unit (or group of units) exceeds the amount of books.

(ii) the value assigned to key assumptions or.

(iii) the amount by which you must change the value or values assigned to the key assumptions that, after incorporating all the recoverable value, resulting effects of that change on other variables used to measure the recoverable amount is the amount equal recoverable from the unit (or group of units) to its book value.

135. If all or part of the amount of the goodwill or intangible assets with indefinite useful lives, has been distributed across multiple cash generating units (or groups of units), and amount so allocated to each unit (or group of units) were not significant compared with the total book value of goodwill or intangible assets with indefinite useful lives of the entity, it shall disclose that fact together with the sum of the amount Book of goodwill or intangible assets with indefinite useful lives assigned to such units (or groups of units). Furthermore, if the recoverable amount of any of these units (or groups of units) is based on the same key assumptions and the sum of the amount of the goodwill or intangible assets with indefinite useful lives were distributed among the units significant compared with the total book value of goodwill or intangible assets with indefinite lives of the entity, it shall disclose that fact, together with:

(a) The total amount of the goodwill shared among these units (or groups of units).

(b) The total amount of intangible assets with indefinite useful lives distributed among these units (or groups of units).

(c) A description of key assumptions.

(d) A description of the approach used by management to determine the value or values assigned to each key assumption, as well as whether those values reflect past experience or, if they are consistent with external sources of information and, if were not, how and why they differ from past experience or external sources of information.

(e) If a reasonably possible change in a key assumption on which management has based its determination of the recoverable amount of the unit (or group of units), assume that the amount of the unit (or group of units) exceeds its

recoverable amount:

(i) the amount by which the recoverable amount of the unit (or group of units) exceeds the amount of books.

(ii) the value assigned to key assumptions or.

(iii) the amount by which you must change the value or values assigned to the key assumptions that, after incorporating all the recoverable value, resulting effects of that change on other variables used to measure recoverable amount, that amount is equal recoverable from the unit (or group of units) to its book value.

136. The most recent estimates of the amount recoverable from a unit (or group of units) made in the previous year may, in accordance with paragraph 24 or 99, move and be used in checking the deterioration of the value for that unit (or group units) in the current period if it meets specific requirements. If so, the information for that unit (or group of units) will be incorporated within the disclosure information required by paragraphs 134 and 135 on the transfer from one year to another of the estimates of recoverable amount.

137. Example 9 illustrates the information disclosure required by paragraphs 134 and 135.

Transitional provisions and effective date

138. **If an entity elects in accordance with paragraph 85 of IFRS 3, to apply IFRS 3 from any date prior to the entry into force set out in paragraphs 78 to 84 of IFRS 3, also apply this Standard prospectively from that date.**

139. **In another case, the entity shall apply this Standard:**

(a) to goodwill and intangible assets acquired in a business combination for which the date of the agreement is from March 31 2004 and

(b) all other assets prospectively from the beginning of the first fiscal year that starts on March 31, 2004.

140. **Entities are advised to apply paragraph 139, to implement the requirements of this Standard before the effective date specified in paragraph 139. However, if an entity applies this Standard before those effective dates, while also apply IFRS 3 and IAS 38 (revised 2004).**

140A. IAS 1 Presentation of Financial Statements (revised 2007) amended the terminology used in IFRS. In addition it amended paragraphs 61, 120, 126 and 129. An entity shall apply those amendments for annual periods beginning on or after January 1, 2009. If an entity applies IAS 1 (revised 2007) to prior periods, the changes also apply to these exercises.

140C. Paragraph 134 (e) was amended by the document improvements to the standards and interpretations issued in May 2008. An entity shall apply those amendments in the years beginning on or after January 1, 2009. Early application is permitted. If an entity applies the amendments in a financial year beginning before, disclose that fact.

140D. Cost of an investment in a subsidiary, jointly controlled entity or associate (amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27), issued in May 2008, added paragraph 12 (h). An entity shall apply those amendments prospectively for annual periods beginning on or after January 1, 2009. Early application is permitted. If an entity applies the amendments in paragraphs 4 and 38A of IAS 27 in previous years, apply at the same time, the amendment to paragraph 12 (h).

Repeal of IAS 36 (issued 1998)

141. This standard replaces IAS 36 Impairment of Assets (issued 1998).

Appendix A

Using the techniques of present value to calculate the value in use

This appendix is an integral part of the rule in the guidelines are provided to use the techniques of present value in determining the value in use. Although the guide uses the term "asset" is equally applicable to groups of assets forming a cash-generating unit.

The components for calculating the present value

A1. The following elements, taken together, capture the economic differences between assets:

- (a) an estimate of future cash flows, or in more complex cases, the series of cash flows that the entity expect to get the asset;
- (b) expectations about possible variations in the amount or timing of appearance of these future cash flows;
- (c) the time value of money, represented by the market interest rate without risk;
- (d) the price by the presence of uncertainty inherent in the asset, and
- (e) other factors, some of which are not identifiable (such as illiquidity) that market participants would reflect in valuing future cash flows the entity expects to obtain the asset.

A2. This Appendix contrasts two approaches to calculate the present value, either of them can be applied, depending on the circumstances, to estimate the use value of an asset. Under the approach 'traditional' settings for the factors (b) to (e), described in paragraph A1, are included by implication in the discount rate. Under the approach of the expected cash flows, factors (b), (d) and (e) cause adjustments to achieve expected cash flows to reflect the risk. Whatever the approach taken by the institution to reflect expectations about possible variations in the amount or timing of appearance of future cash flows, the end result should reflect the present value of expected future cash flows, i.e. through the weighted average of all possible outcomes.

General principles

A3. The techniques used to estimate future cash flows and interest rates vary from one situation to another, depending on the circumstances surrounding the asset in question. However, the following general principles guide any application of present value techniques in measuring assets.

(a) Interest rates used to discount the cash flows reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions can be taken into account twice or ignored. For example, you could apply a discount rate of 12% to the cash flows of a loan contract. Such reflects expectations about future defaults from loans with special characteristics. That same rate of 12% should not be used to discount expected cash flows because those cash flows already reflect assumptions about future defaults are assumed.

(b) The estimated cash flows and discount rates must be free of bias and other factors unrelated to the asset in question. For example, the deliberate overstatement of the estimated net cash flows, to appear in a future asset returns introduces a bias in the assessment.

(c) The estimated cash flows or discount rates should reflect the range of possible outcomes, but not the most likely outcome, nor the maximum or minimum.

Traditional and effective approaches for calculating the expected present value

Traditional approach

A4. The present value accounting applications have traditionally used a single set of estimated cash flows, and a single discount rate, often described as "the type that corresponds to risk." Indeed, the traditional approach assumes by convention that a single interest rate can incorporate all the expectations about future cash flows and appropriate risk premium. Consequently, the traditional approach puts more emphasis on the selection of the discount rate.

A5. In some circumstances, such as those in which comparable assets can be seen in the market, the traditional approach is relatively easy to implement. For assets with contractual cash flows is consistent with the manner in which the participants in the market describing the assets, when they say "a 12 percent bonus."

A6. However, the traditional approach may not be appropriate for some complex issues of valuation, such as the valuation of non-financial assets for which there is no market either for parties or other comparable elements. The search for the correct type that corresponds to the risk "requires analysis of at least two elements, the assets that can be found on the market and has an observable rate of interest and the asset being valued. The discount rate for cash flows being valued, must be inferred from the observable rate of interest in that other asset. To make that inference, the characteristics of the cash flows of other assets should be similar to those inherent in the asset that is being valued. Accordingly, the assessor must do the following:

(a) identify all cash flows to be discounted;

(b) identify another asset in the market that have similar characteristics apparent in its cash flows;

(c) comparing the sets of cash flows of the two elements to ensure they are similar (e.g., both are contractual cash flows, or is a contract and the other is an estimated cash flow?)

(d) assess whether there is a component of an element which is absent in another (e.g., a liquid is less than the other?) and

(e) assess whether it is likely that both sets of cash flows to behave (i.e. vary) in a manner similar to a change in economic conditions.

Approach to cash flow expected

A7. The focus of cash flow is expected in some situations, an assessment tool more effective than the traditional approach. In developing the valuation, the cash flow approach uses all expectations about the potential expectations of cash flows, rather than a single most likely cash flow. For example, a cash flow may be 100 \$, 200 \$ or 300 \$, with probabilities of 10, 60 and 30 percent respectively. The expected cash flow is 220 \$ The approach of the expected cash flow differs from the traditional approach by focusing on direct analysis of cash flows in question and more explicit pronouncements on the assumptions used in valuation.

A8. The cash flow approach also allows to use the expected present value techniques when the timing of cash flows are subject to uncertainty. For example, a 1000 cash flow \$ could reach one, two or three years with probabilities of 10 percent, 60 percent and 30 percent respectively. The following example shows the calculation of expected present value in that situation.

Current value of 1000 \$ 1 year to 5%	952.38	
Probability	<u>10.00%</u>	95.24
Current value of 1000 \$ in 2 years to 5.25%	902.73	
Probability	<u>60.00%</u>	541.64
Current value of 1000 \$ in 3 years at 5.50%	851.61	
Probability	<u>30.00%</u>	<u>255.48</u>
Expected present value		892.36

A9. The expected present value of 892.36 \$ differs from the traditional notion of a best estimate of 902.73 (which corresponds to the probability of 60 per cent). The traditional present value calculations applied to this example requires a decision on which of the possible advent calendars in time of cash flows is used and, accordingly, would not reflect the probability of occurrence of other calendars of flows. This is because the discount rate, within the traditional present value calculations can not reflect the uncertainties on the timing.

A10. The use of probabilities is an essential element of the approach of the expected cash flow. Some question whether assigning probabilities to highly subjective estimates suggests greater precision of which actually exists. However, proper application of the traditional approach (as described in paragraph A6) requires the same estimates and subjectivity without realizing transparent calculation that takes the approach of the expected cash flow.

A11. Many estimates developed in current practice already incorporate informally, the expected cash flow. In addition, accountants are often faced with the need to value an asset using limited information about the probabilities of possible cash flows. For example, an accountant might be confronted with the following situations:

(a) The estimated amount falls somewhere between 50 \$ and 250 \$, with no amount within the range is more likely than any other. From this limited information, the expected cash flow is 150 \$ $[(50 + 250) / 2]$.

(b) The estimated amount falls somewhere between 50 \$ and 250 \$, the most likely amount being 100 \$ However, the probabilities associated with each amount are unknown. From this limited information, the cash flow is expected 133.33 \$ $[(50 + 100 + 250) / 3]$.

(c) The estimated amount is 50 \$ (with 10 percent probability), 250 \$ (with 30 percent probability), or 100 \$ (with 60 per cent probability). From this limited information, the expected cash flow is 140 \$ $[(50 \times 0.10) + (250 \times 0.30) + (100 \times 0.60)]$.

In each case, the estimated expected cash flow will, in all likelihood, a better estimate of the value of use to the minimum, maximum or most likely taken in isolation.

A12 Application of the approach of expected cash flow is subject to the restriction cost-benefit analysis. In some cases, an entity could have access to many data and may be able to develop multiple scenarios of cash flows. In other cases, the entity could not get more than a general statement or idea on the variability of cash flows without incurring substantial costs. The entity needs to balance the cost of additional information compared to the relevance that such additional information will provide the valuation.

A13. Some maintain that the cash flow techniques are inappropriate for the expected valuation of an individual item or an item with a limited number of possible outcomes. Proponents of this view presents the example of an asset with two possible outcomes: a

90 percent probability that the cash flow is 10 \$ and a 10 percent probability that 1000 is a They note that the expected cash flow in this example is 109, and criticized this result, considering that it is not representative of any of the amounts that might ultimately be paid.

A14. Assertions as explained in the preceding paragraph only reflect disagreement with the implicit purpose of valuation. If the goal is the accumulation of costs they will incur, the expected cash flow may not produce a realistic and reliable estimate of the expected costs. However, this Standard deals with the assessment of the recoverable amount of an asset. The recoverable amount of assets, in the example above, you probably will not be 10 \$, even if the cash flow more likely. This is because the valuation of 10 \$ does not incorporate the uncertainty of cash flows in the valuation of assets. Rather, the uncertain cash flow is presented as a true cash flow. No rational entity would sell an asset with these characteristics by 10 \$

Discount rate

A15. Whichever approach an entity adopts for measuring the use value of an asset, the discount rate used to discount cash flows should not reflect the risks that have already been taken into account in adjusting the estimated cash flows. Otherwise, the effect of some assumptions will be taken into account twice.

A16 If the rate that corresponds to a specific asset is not available directly from the market, the entity will use substitutes to estimate the discount rate. The aim is to achieve the best possible, a market assessment of:

- (a) the time value of money, for the period until the end of life of the asset, and
- (b) factors (b), (d) and (e) described in paragraph A1, to the extent that they have not been the result of adjustments to obtain the estimated cash flows.

A17 As a starting point when making such an estimate, the entity might take into account the following types:

- (a) the weighted average cost of capital determined using techniques such as the price of financial assets;
- (b) the incremental interest rate of loans taken by the institution, and
- (c) other market interest rates for loans.

A18 However, these rates should be adjusted:

- (a) to reflect how the market assesses the risks associated with the estimated cash flows of assets and
- (b) to exclude risks that have no relevance in the estimated cash flows of the assets, or for which the estimated cash flows have been adjusted.
Be considered risks such as country risk, the risk of exchange rate and price risk.

A19 The discount rate is independent of the capital structure of the entity and how the entity financed the purchase of assets, which is due to the expected future cash flows arising from the asset does not depend on the way which the entity financed the purchase of that asset.

A20 Paragraph 55 requires the discount rate used is before tax. Accordingly, when the base used to estimate the discount rate is after tax, that basis is adjusted to reflect a pre-tax rate.

A21 An entity normally uses a single discount rate for estimating the use value of an asset. However, the entity will use different interest rates for different future periods, if the value in use is sensitive to differences in risks for different periods of time or the structure of interest rates.