

# Reversal of Impairment



## Introduction

Insights Advisory have an experienced team of financial consultants, IFRS specialists and accountants who work together to assist our clients in the impairment testing of assets (individual or group). We assist companies seeking impairment testing for year end financial statement preparation so it can corroborate with the auditors workings.

## Our Methodology for Reversal of Impairment

### Transformation of Fundamental Data to Market Value Determination

- Review factors as per IAS 36 for inclusion in Valuation Model.
- Review forecasts for inclusion of the most recent information.
- Calculating value in use of fixed assets
- Calculation of the cost of capital by determining risk-free rate, market risk premium, beta factor and growth rate based on accredited methods
- Determination of terminal value
- Calculation of the value of the business using Net assets and/or discounted cash flow method (DCF)
- Comparing Value in Use with Carrying value of assets and calculate impairment if any.
- Preparation of complete disclosure of impairment working and its recoverable amount working as per IFRS.
- Finalize report and analysis, to date of closing

### Reversing an impairment loss for an individual asset

- The impairment loss can be reversed to the extent that the increased carrying amount of an individual asset does not exceed the amount at which the asset would have been carried (net of amortization or depreciation) had there been no initial impairment.

### Reversing an impairment loss for a CGU

- The reversal is allocated pro rata to the assets of the CGU, except for goodwill.
- In the case of an asset within a CGU, the increased carrying amount cannot exceed the lower of:
  - Its recoverable amount; and
  - the amount at which the asset would have been carried (net of amortization or depreciation) had there been no initial impairment.

## Key Areas of Analysis:



- Review existing assets and allocate to its CGUs.
- Obtaining Cash flows from client based on the most recent forecast for the CGUs.
- Obtain the previous Impairment Testing Reports from the client and check for the prevalence of the circumstances as stated in them for the current evaluation.
- Consider indicators for reversal of impairment for each relevant asset. If an indicator exists, determine the recoverable amount of that asset and compare it with carrying amount of the asset.

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