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HMRC internal manual

Corporate Intangibles Research and Development Manual

From: **HM Revenue & Customs (/government/organisations/hm-revenue-customs)**

Published 11 March 2016

Updated: 10 September 2025 - **See all updates**

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CIRD30550 - Intangible assets: notes on accounting practice: impairment

General

Under FRS102 s27, an impairment loss occurs when the carrying amount of an asset exceeds its recoverable amount.

Goodwill and other intangible assets are reviewed for impairment only when there is an indication that they might be impaired. There is no requirement for annual reviews to be carried out. In assessing whether there is any indication of impairment, the following indicators should be considered as a minimum:

- Decline in market value of the asset
- Changes to the business environment
- Increases in market interest rates (which may affect discount rates used)
- The carrying amount of the net assets exceeds the fair value of the entity as a whole
- Obsolescence or physical damage to the asset
- Changes in the way the asset is used
- Economic performance of the asset is worse than expected

Impairment review

An impairment review involves a comparison of the carrying amount of an asset with its recoverable amount. Where the recoverable amount is less than the carrying amount, the asset is impaired and is written down to its recoverable amount.

The carrying amount is the value at which the asset is recorded in the balance sheet. The recoverable amount is the higher of the amount that could be obtained by selling the asset (less costs of disposal) and the asset's value in use. Value in use is calculated using a discounted cash flow technique – it is the present value of the future cash flows expected to be derived from continuing to use the asset and from its ultimate disposal.

In the case of goodwill, it will not be possible to estimate the recoverable amount on an individual asset basis. This may also be the case for other assets. In such cases, the recoverable amount is measured by considering the recoverable amount of the smallest 'cash generating unit' (CGU) to which the asset belongs (a CGU is a group of assets that generates largely independent cash flows). The CGU as a whole is reviewed for impairment and any loss is first allocated to goodwill and then to other assets within the CGU on a pro-rata basis.

You should seek the advice of an HMRC advisory accountant when considering an impairment review.

Impairment losses

As noted above, if the recoverable amount of the asset is less than its carrying amount, the asset is impaired and should be written down to its recoverable amount. The impairment loss is recognised immediately in the profit and loss account, unless it relates to a previously revalued asset (in which case it is treated as a revaluation decrease).

Impairment losses for goodwill should not be reversed. For assets other than goodwill, impairment losses should be reversed if, and only if, the reasons for the loss no longer apply. The reversal is restricted to an amount which does not increase the value of the asset to an amount which exceeds the amount that would have been recognised (net of amortisation) had the previous loss not been recognised.

IAS36

The principle difference between IAS36 and FRS102 s27 which may have an impact for Part 8 purposes is as follows:

- Under IAS36, impairment reviews of goodwill and indefinite life intangible assets should be carried out annually irrespective of whether there is an indication of impairment

FRS105 s22

There are no significant differences between FRS105 s22 and FRS102 s27 which have been identified as having an impact for Part 8 purposes.

FRS11

The principle differences between FRS11 and FRS102 s27 which may have an impact for Part 8 purposes are as follows:

- Under FRS11, goodwill and other intangible assets must be assessed for impairment at the end of the first full year following acquisition, and in other periods if there is an indication of impairment. In addition, goodwill and intangible assets being amortised over a period of more than 20 years (or not being amortised at all) must be reviewed for impairment annually.
- Where an impairment review is carried out by considering the CGU to which the asset belongs, any impairment loss is first allocated to goodwill, then to other intangible assets and then to other assets on a pro-rata basis.
- Under FRS11, goodwill impairment losses can be reversed if the reasons for the loss no longer apply.

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