Accounting for impairment

Both national and international accounting rules are in the process of being changed and/or refined but, as WAYNE LONERGAN points out, when it comes to accounting for impairment, the rules leave a lot to be desired.

Readers unfamiliar with the arcane arts of accounting could not imagine how impairment testing under accounting standards could occur without recognising the fundamental principles of the time value of money and risk.

Yet, prior to the implementation of IFRS in Australia for financial years commencing 1 January 2005, the recoverable amount test:
(a) was assessed at the individual asset class level;
(b) applied only to non-current assets; and
(c) expected future cash flows did not have to be discounted to their present value, although it had to be disclosed if they were discounted.

The new IFRS impairment test under AASB 136:
(a) also applies to some current assets;
(b) requires impairment testing of other assets if there are prima facie indications of impairment;
(c) requires annual impairment testing of goodwill, indefinite life intangibles and intangibles not in use;
(d) will now generally be assessed at the cash generating unit (CGU) level;
(e) it is now mandated that impaired value be assessed on a present value basis (this is required when assessing value in use and is implicit in fair value).

In future years recoverable amount will therefore be calculated as the higher of:
(a) fair value (in essence market value), net of direct costs to sell; or
(b) value in use.

The concept of fair value is effectively equivalent to what is generally referred to as market value and is familiar to readers. However, the IAS concept of disposal costs only considers direct disposal costs (e.g. brokerage fees) and ignores other consequential disposal costs (e.g. subsequent redundancies, etc.). The concept of fair (market) value is an appropriate reference point for impairment testing and is not commented upon further in this article.

BASIS FOR CONCLUSION
The IAS version of the standard is accompanied by a Basis for Conclusions section with some important explanations as to the reasons for certain of the standard’s requirements. For copyright reasons this important information is not published in the Australian version of the standards despite the Australian accounting standards’ requirements being effectively law for Australian reporting entities.

WHAT IS VALUE IN USE?
The term “value in use” is frequently used in property, plant and equipment valuations. However, the accounting standard concept of value in use, and the way it has to be calculated under AASB 136, is different. Value in use under AASB 136 is subject to a number of specific and idiosyncratic rules, some of which are fatally flawed in both concept and in their practical application.

The IASB explains that value in use is to be based on the enterprise’s estimate (in contrast to the market’s expectation) of future cash flows. The IASC subsequently adds the proviso of “reasonable” to the enterprise’s estimates.

Despite the apparent simplicity of the IASC explanation, and putting aside the questionable proposition of accepting that value is in the eye of the (be)holder, AASB 136 does not contain even a reference to

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the significant (sometimes useful, sometimes flawed) commentary set out in the IASC Basis for Conclusions which contain 70 pages of explanatory material. This material accompanies IAS 36, the corresponding IAS standard, but does not accompany, and is not even referred to, in AASB 136.

PRIMA FACIE INDICATORS OF IMPAIRMENT
The recoverable amount of goodwill, indefinite life intangibles and intangibles not yet available for use, is required to be tested annually.

For all other assets AASB 136 firstly requires that there be some prima facie indication of impairment. In the absence of such prima facie indicator of impairment, no valuation assessment is required.

The prima facie indicators of impairment are all the obvious ones (damage, rising interest rates, worse economic performance, etc.) and a catch all (basically, anything else relevant).

This two-tiered approach to assessing impairment was derived from FASB, whose impairment standard had a two-tiered approach, and appears to be primarily directed at minimising annual compliance costs by avoiding the need for annual valuations.4

WHY NOT JUST TEST AGAINST FAIR VALUE?
One might wonder why the relevant reference point for impairment testing isn’t simply “fair value”. The Australian standard indicates that there may be circumstances where there is no basis for estimating fair value, and in such circumstances value in use may be used as its recoverable amount.

In an Australian context, market value has long been defined as the price that would be negotiated by (albeit possibly hypothetical) willing but not anxious buyers and sellers, both fully informed and acting at arm’s length.

It therefore seems quite unnecessary to introduce a value in use concept into the standard except (perhaps) for very rare and unusual circumstances where fair value can’t be calculated. Unfortunately, AASB 136 does not restrict the application of value in use to such circumstances. Indeed the standard links fair value determination with the price set in active and liquid markets.

Another reason why the value in use test appears to have been introduced, although this is not stated, was to avoid recognising an initial loss on acquisition resulting from:

(a) the buy/sell spread;
(b) transaction costs (stamp duty, professional and merchant bank fees, etc.); and
(c) other purchase costs (e.g. installation, etc.).

If this is a significant underlying rationale it is not a sound one either. This is because, from a practical perspective, for many assets such costs are either covered by the going concern assumption and/or are immaterial. Alternatively, if the transaction costs weren’t an unavoidable cost of acquisition, they would as a matter of economic logic be paid away to the vendor by the purchaser if they had not been otherwise incurred (thus forming part of fair value anyway).

EXCLUSIONS FROM VALUE IN USE
AASB 136 specifically excludes from value in use the future cash flows which arise from:

(a) taxation affects;
(b) financing; and
(c) future restructuring costs and benefits.

Value in use is therefore significantly different from fair value in the way it is calculated. The nature and extent of the differences are, however, both complex and idiosyncratic by entity and by time period. For value in use AASB 136 incorrectly treats tax not only by excluding it from the future cash flows used to assess value in use, but also by requiring that present value be calculated using before-tax discount rates.

In fairness, the exclusions of tax from both the cash flows and the discount rate is at least logically consistent. Unfortunately, the exclusions lead to both conceptual and practical errors.

TAX IS IMPORTANT TO VALUE
Anyone who has ever prepared or reviewed anything but the simplest DCF model will know that the tax deductibility of interest and other outgoings, entity specific tax benefits and tax timing differences are very important factors, if not critical factors, in assessing value.

The exclusion of tax effects under the AASB 136 calculation of value in use are clearly incorrect in principle, and in its practical application (refer below).

The fundamental problems created by excluding key factors from value in use cash flows are exacerbated by the fundamental inconsistency between:

(a) the standard setters’ use of cash-generating units (CGUs) as a key measurement point for impairment testing; and
(b) maintaining the traditional accounting concept of asset and liability classes, with individual accounting standards specifying detailed, and often inconsistent, measurement and disclosure rules for those asset and liability classes.

BEFORE-TAX DISCOUNT RATE IS WRONG IN MOST CASES
Most discounted cash flow (DCF) valuations are prepared using after-tax cash flows discounted at after-tax rates. This is not simply a reflection of the investment and business community’s obsession with tax issues. It also reflects the fact that, for many projects, equity investments and other assets, only after-tax rates are truly observable. Further, the capital asset pricing model which is widely used to calculate discount rates is calculated after company tax. In any event, it is cash flows and not taxable income that should be discounted when assessing (net) present value.

DON’T JUST GROSS UP
Contrary to the widespread belief to the contrary, it is not generally correct to simply gross up the after-tax discount rate at the standard rate of tax to determine the equivalent before-tax discount rate. That is, the before-tax discount rate is not generally equal to the after-tax discount rate times 100/70. Table
1 demonstrates why this is so:

### TABLE 1: AFTER-TAX AND BEFORE-TAX DISCOUNT RATES

<table>
<thead>
<tr>
<th>Value at 14% After-tax discount rate</th>
<th>Value at 20% Before-tax discount rate</th>
<th>Valuation error(^2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 years, no growth</td>
<td>239</td>
<td>25%</td>
</tr>
<tr>
<td>10 years, no growth</td>
<td>365</td>
<td>15%</td>
</tr>
<tr>
<td>10 years, 5% per annum growth</td>
<td>436</td>
<td>12%</td>
</tr>
<tr>
<td>Perpetual, 5% per annum growth</td>
<td>778</td>
<td>(14)%</td>
</tr>
<tr>
<td>Perpetual, no growth</td>
<td>500</td>
<td>–</td>
</tr>
</tbody>
</table>

Notes:
1 Calculations are based on $100 per annum taxable income, a 30% tax rate and no terminal value.
2 Being the percentage valuation error if the after-tax rate is grossed up by 100/70.

### TABLE 2: THREE-YEAR TAX WRITE-OFF

<table>
<thead>
<tr>
<th>Year 1 $</th>
<th>Year 2 $</th>
<th>Year 3 $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Tax deduction</td>
<td>(1,000)</td>
<td>(1,000)</td>
</tr>
<tr>
<td>Taxable income</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Tax</td>
<td>(150)</td>
<td>(150)</td>
</tr>
<tr>
<td>Cash flow after tax</td>
<td>1,350</td>
<td>1,350</td>
</tr>
</tbody>
</table>

### TABLE 3: IMMEDIATE TAX WRITE-OFF

<table>
<thead>
<tr>
<th>Year 1 $</th>
<th>Year 2 $</th>
<th>Year 3 $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Tax deduction</td>
<td>(3,000)*</td>
<td>–</td>
</tr>
<tr>
<td>Taxable income (loss)</td>
<td>(1,500)</td>
<td>1,500</td>
</tr>
<tr>
<td>Tax</td>
<td>450*</td>
<td>450</td>
</tr>
<tr>
<td>Cash flow after tax</td>
<td>1,950</td>
<td>1,050</td>
</tr>
</tbody>
</table>

* Assuming there is other taxable income to utilise the deduction.

A PRAGMATIC SOLUTION TO A FLAWED REQUIREMENT

Obviously, the simple way around AASB 136’s requirement to discount future cash flows at a before-tax discount rate is to calculate the correct present value using an after-tax discount rate and then back solve the pre-tax discount rate.\(^6\)

Indeed this “back solving” solution is even suggested in the Basis for Conclusions appended to IAS 36, but not published with the Australian Standard. Readers may wonder why the IASB chose to impose the requirement to discount future cash flows at a before-tax discount rate and then suggest in the Basis for Conclusion the use of an after-tax discount rate to back solve the pre tax discount rate that they should never have specified in the first place.

BACK SOLVING ISN’T IDEAL

Back solving the before-tax discount rate from the after-tax discount rate is generally a practical solution. However, it is a second best solution. This is because:

(a) the before-tax discount rate is likely to change each year even if there are no changes in the cash flows or the prevailing after-tax discount rate (see Table 1);
(b) identical before-tax cash flows will have different values for different entities (see Tables 2 and 3) because the real drivers of value, the after-tax returns, are different; and
(c) there will be a loss of comparability not only between entities but even for the same entity over time, as the before-tax discount rate will have to be back solved (fiddled?) each year to be consistent with the correct valuation result which should be derived by applying an after-tax discount rate to after-tax cash flows.

Tables 2 and 3 illustrate the sort of problems that can arise. The tables set out in simplified form the cash flows from the purchase of a $3,000 computer with a three-year life and no residual value, assuming a three-year tax write-off (Table 2) and an immediate tax write-off (Table 3).

Although the pre-tax income in Tables 2 and 3 is identical:

(a) the after-tax cash flows are significantly different;
(b) the value in use of the computer if assessed on the basis of cash flows ignoring tax, as AASB 136 requires, is the same in both cases, whereas its after-tax value and therefore its fair value is significantly different in Table 3 than in Table 2;
(c) if the before-tax discount rate is back solved from the correct after-tax discount rate then the before-tax discount rate will need to change each year to calculate the correct value, even if there is no change in the expected cash flows or in the prevailing after-tax discount rate.

These issues are not just matters of technical detail and lack of comparability. Many corporates, and their auditors, will get the wrong value in use result because they do not understand that before-tax discount rates are not simply the grossed up after-tax discount rate.

RESTRUCTURING COSTS AND BENEFITS

The calculation of value in use under AASB 136 also requires that the costs and benefits of future restructuring (unless the entity is committed to it) and brownfields expansion be ignored. Yet such future costs and benefits are often fundamental to the fair value of the investment.

If this were the only problem with AASB 136, the exclusion of restructuring costs and benefits would be remedied because such benefits would be captured in fair value. As the AASB 136 impairment test is the higher of fair value and value in use, which excludes future restructuring effects, would be ignored in favour of the (correctly calculated) fair value. This is because impairment is tested against the higher of value in use and fair value.
However, many wrongs don’t make a right. There will be many cases where the errors inherent in the AASB 136 calculation of value in use will not be overcome by the correctly assessed fair value, nor will the various errors in the calculation of value in use cancel each other out.

Indeed, given corporate Australia's track record for avoiding write-downs wherever possible, the most likely outcome is that if value in use (the calculations of which is seriously flawed under AASB 136) exceeds fair value (net of disposal costs), then this higher value will be used to justify the retention of excessive carrying values.

EXCLUSION OF FINANCING

AASB 136 also requires that value in use be calculated ignoring financing.

At first glance this does not appear to be a major issue provided that an appropriate deduction is made for the market value of debt. The problem is, from an accounting perspective, that the book value of debt as shown in the accounts is not necessarily equal to its market value.

RECEIVABLES AND OBLIGATIONS

Similar problems arise in respect of receivables and provisions. If these assets and (what are from a commercial and valuation perspective) liabilities are rolled over each year, then a properly calculated DCF model will recognise the cash flow consequences when they actually occur (i.e. significantly or almost permanently deferred). However, from an accounting perspective these items are generally recorded at their face value rather than their present value. Furthermore, AASB 136 requires that forecast cash flows, used to assess value in use, exclude such items.

These items are thus (wrongly) excluded from the value in use cash flows by AASB 136 where they would otherwise be valued at their discounted value if a properly calculated DCF value is to be derived.

However, notwithstanding the inconsistent measurement basis of these items, for accounting purposes, most debt and most obligations will be shown at their nominal values in the accounts. The result is that the accounting standards’ mandate that even if these items are integral to the CGU whose value in use is being measured, that for accounting purposes some components integral to the CGU have to be valued at their historical cost whereas other components have to be valued at their (present) value (in use) or their fair (present) value when impairment is being considered and measured.

NET EFFECT OF AASB 136 EXCLUSIONS

None of the (often critical) cash flow items (which AASB 136 mandates be ignored in the assessment of value in use) would have been a problem but for AASB 136’s requiring that these key items be excluded from value in use cash flows. Alternatively, these problems would not have arisen if the standard setters had simply based their impairment test on fair value.

However, because the standard’s reference point for impairment testing is the higher of fair value and value in use (the calculation of the latter being required by AASB 136 to be based on a number of inappropriate exclusions plus the application of the wrong discount rate), then it is inevitable that some assets whose value is clearly impaired will not be written down for accounting purposes because their carrying value will be “supported” by an inappropriately calculated value in use.

In other words, AASB 136 is defective because the way it requires value in use to be calculated results in an inconsistent accounting treatment of the items it (wrongly) excludes from its present value (PV) calculation of value in use and the accounting value of those items under other accounting standards for those asset and liability classes.

Simply put, the accounting value of tax, financing and future restructuring effects are not required to be consistently (or properly) valued by other (also legally enforceable) accounting standards. Indeed, in some cases (e.g. tax and restructuring provisions) the relevant standards actually prohibit their recognition on a consistent basis with that required to be used to calculate other elements of value in use.

In essence, the problem of inconsistent standards has been further exacerbated by the AASB 136 introduction of a (wrongly calculated) value in use reference point for impairment testing.

CGUs AND ASSET CLASSES

The introduction of the concept of CGUs as a reference point for impairment testing, whilst correct in basic principle, introduces a further inconsistency between the impairment reference point, being the CGU, and the continued use of “class of assets” for financial reporting and as the fundamental reference point for other accounting standards.

Thus AASB 136 correctly (in principle) mandates that future cash flows of CGUs be present valued. Previously, under AASB 1010, future cash flows did not have to be present valued when assessing recoverable amount.

Indeed, the concept of CGU, as such, was not referred to in previous Australian accounting standards. However, some individual asset classes did comprise what, in substance, were CGUs (e.g. joint ventures).

The introduction of CGUs as a specified reference point for impairment testing therefore has the following consequences:

(a) future cash flows have to be present valued;\(^8\)
(b) write-downs of some individual asset values which were required under the pre-IFRS accounting standards, will in the future be able to be avoided because impairment will be assessed at the CGU level if the asset does not (as is frequently the case) generate independent cash flows. The result is that what would previously have been a required write-down in the value of a specific asset will in future be able to be avoided or at least deferred as long as the CGU has enough internally generated or other unrecognised intangible asset value\(^9\) to offset the loss in value of that asset;
(c) the previous accounting standard’s complete prohibition on the recognition of internally generated goodwill has been modified for CGU impairment testing purposes.\(^10\) That is, internally generated goodwill (and other unrecognised intangible asset value) is now permitted to offset the
decline in the value of other assets within the CGU;
(d) post-IFRS, CGU impairment write-downs will first be allocated to goodwill at the CGU level (previously it was the value of the relevant asset class that was written down);
(e) some individual assets will continue to be valued at their historical cost notwithstanding that their values have clearly fallen. Their fall in value will instead be reflected in a fall in the value of goodwill or will be hidden because it is allowed to be offset against internally generated but unrecognised goodwill or other unrecognised identifiable intangible asset values;
(f) post-IFRS, impairment reversals for CGU goodwill will be prohibited and instead will be allocated pro rata across the other CGU asset classes (but limited by the pre-impairment carrying value).

These changes are summarised in Table 4.

WHY PRO RATA?
The AASB 136 requirement to pro rata write-downs (after eliminating goodwill) pro rata to all assets and to pro rata recoveries across all (previously recognised) assets in the CGU (except goodwill) appears to be a curious one. The standard notes that this requirement is made for practical reasons. The preferable requirement would have been to require the allocation of the value write-down and recoveries only to those assets whose value had, in fact, fallen or recovered.

WHAT AASB 136 GOT RIGHT
Notwithstanding its flaws, AASB 136 also contains a number of significant improvements on the previous Australian standard. These include:
(a) mandating that future cash flows be present valued (albeit wrongly calculated and at the wrong rate in the case of value in use);
(b) significantly improved disclosures (e.g. growth rate, discount rate, sensitivity analysis, probability weighted outcomes);
(c) consistency of discount rates with cash flows (i.e. nominal with nominal, real with real);
(d) extrapolation of steady state/declining growth rates;
(e) imposition of natural limits on assumed growth rates;
(f) discounting of foreign currency cash flows at foreign currency discount rates and then converting the resulting value at spot rates.

Given the technical sophistication of those valuation issues that AASB 136 did get right, the new standard has much to commend it.

It is therefore highly regrettable that the benefits of the new standard will, in many cases, be diminished because it will also be used to justify excessive carrying values of some assets by reference to the standard’s flawed calculation of value in use and its asymmetric and inconsistent treatment of goodwill.

THE EFFECT OF ASYMMETRY
Inconsistencies imposed by the new AASB 136 will be idiosyncratic and entity specific in their impact. Thus the following attempt at trying to assess the most likely net impact of AASB 136 on future financial reports will be subject to many exceptions. Subject to the above, significant, reservation:
(a) fair values, if used as the reference point for impairment testing is a significant improvement on the previous Australian standard which did not mandate that future cash be discounted (assuming, of course, fair value is correctly valued);
(b) many individual asset value write-downs will, in future, be able to be avoided to the extent they are offset by internally generated goodwill and other unrecognised identifiable intangible asset values within CGUs;
(c) value in use will be used to justify the carrying value of some assets/CGUs even though a write-down would clearly be required under the fair value criteria;
(d) value in use will be mis-stated by the erroneous exclusion of tax, restructuring and financing effects from the DCF;
(e) value in use is fundamentally inconsistent with the non-inclusion or the exclusion from financial reports of the fair value of certain integrally related liabilities, tax assets, tax liabilities and restructuring provisions. Generally, these are recorded for accounting

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**TABLE 4**

<table>
<thead>
<tr>
<th>Pre-IFRS</th>
<th>Best practice pre-IFRS</th>
<th>Post-IFRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>PV could be ignored</td>
<td>PV recognised</td>
<td>PV recognition now mandated</td>
</tr>
<tr>
<td>No offset of asset write-downs against other asset classes</td>
<td>No offset of asset write-downs against other asset classes</td>
<td>Asset value write-downs can be offset by internally generated goodwill plus unrecognised identifiable intangible asset values, plus synergy benefits within the CGU</td>
</tr>
<tr>
<td>Individual asset value written down</td>
<td>Individual asset value written down</td>
<td>Written down first against (unrecognised) internally generated CGU goodwill, and other unrecognised identifiable asset values then against CGU goodwill then pro rata</td>
</tr>
<tr>
<td>Individual asset value could be reinstated</td>
<td>Individual asset value could be reinstated</td>
<td>Recovered value apportioned Pro rata across all previously recognised assets other than goodwill*</td>
</tr>
<tr>
<td>As above</td>
<td>As above</td>
<td>Goodwill write-downs can’t be reinstated</td>
</tr>
</tbody>
</table>

* Limited to value pre the impairment write-down.
purposes at their face value as mandated or permitted by other (conceptually inconsistent) accounting standards or they are required to be ignored altogether;

(f) value in use will be understated because of the exclusion of the net benefits from future restructuring/brownfields expansion and the overstatement of deferred tax liabilities;

(g) in the majority of cases little or no commercial reliance should be put on value in use justified failures to recognise impairment losses.

TIMING OF REVERSALS
The standard requires that impairment recoveries be assessed at each reporting date.15

VOLATILITY
Another inevitable outcome of applying AASB 136 will be increased volatility in reported results and asset values. This volatility arises because in economic downturn and periods of rising interest rates asset values will fall, and these falls and their consequent profit effects will be (partly) reflected in financial statements. The present value requirements will mean that this will occur much more frequently.16

As the economy recovers or interest rates fall, some of these write-downs (but not goodwill) will be reversed.

However, impairment losses are not to be reversed just because of the unwinding of the present value discount.

Conclusions
The new standard AASB 136 has many good features, but unfortunately these are marred by the introduction of the concept of value in use as one of the two reference points for impairment testing. It is also marred by the inconsistent and asymmetric treatment of goodwill, and the exclusion of the effects of tax, financing and future restructuring from the value in use calculation (which is flawed in principle).

The mandated use of before-tax discount rates for assessing value in use is also flawed both in principle and because of its likely practical consequences partly (but not adequately) compensates for the exclusion of tax consequences from the calculation of value in use.

The consequence is that future reported asset values and results will be more volatile.

The inevitable outcome of applying AASB 136 is that some impairment losses will still not be recognised for financial reporting purposes. Some excessive asset values will also continue to be reflected in accounts with the impairment loss charged against the value of goodwill or shadowed by the value of internally generated goodwill or other unrecognised identifiable intangible asset values.

The basic conceptual problem that the accounting standard setters have not yet come to grips with is that you can’t sit astride the fair value fence. In particular, standard setters should not introduce flawed concepts such as (the standards version of) value in use into an accounting model that simultaneously mandates market value principles and historical cost accounting for integrally related items.

Put more simply, AASB 136 is a big improvement on AASB 1010, but it still mandates unlike accounting treatments for like items.

Notes
1 The standard generally uses the terms “asset”, but the standard’s requirements apply equally to an individual asset or a cash generating unit ie the lowest level at which cash generating capability is measured for management purposes). 2 Basis for conclusion BCZ11. 3 Basis for conclusion BCZ 17. 4 Although how management, who don’t properly and regularly monitor the value of major corporate assets, can be said to properly carry out their role, is not clear. 5 Paragraph 26 refers to the preferred use of bid price if there is an active market. This contrasts with the prior practice of referring to last sale price or mid price.

6 This solution is relatively easy to apply at a business unit or CGU level. It is less easy to apply in the case of individual asset classes—although competent managers obviously consider tax issues when assessing the value of, for example, property assets.

7 The accounting treatment for which is contained in IAS 39 (which standard does not generally require that debt be fair valued).

8 The standard requires this for value in use. Technically, all value is the present value of future cash flows. However, often, fair (market) value is assessed using surrogate valuation methods such as capitalised profits. Thus the standard requirement to refer to fair value, in the alternative, effectively also mandates the application of present value to situations where fair value is relied upon. This is because fair value, either explicitly, because it is calculated on a present value basis, or implicitly, because the methodology is a surrogate for present value, relies on present value principles.

9 For example, because identifiable intangible assets are prohibited from being revalued.

10 The same issue arises for goodwill.

11 Subject to a floor of net sales value, zero, or value in use.

12 Unless a different view is justifiable.

13 The mandated use of DCF techniques is so self-evident that it should have been enforced decades ago.

14 The net tax effect may be positive or negative depending on the relative timing and quantum of deferred tax assets and liabilities.

15 The standard prohibits the reversal of goodwill impairment losses. This prohibition is justified (in AASB 138) on the basis that any such recovery reflects internally generated goodwill the recognition of which is generally prohibited. (This explanation is inconsistent with the fact that the AASB 136 permits impairment write-downs of other asset values to offset against internally generated goodwill within CGUs.) Where impairment recovery is clearly the result of interest rate changes one would have thought that the standard should have, as a matter of logical consistency, permitted the reversal of goodwill impairment write-downs.

16 Some of the effect may go to the asset revaluation reserve, but not in the case of goodwill or identifiable intangible assets.