Accounting Standards for Business Enterprises No. 8 — Impairment of Assets

Chapter I General Provisions

Article 1 These Standards are formulated in accordance with the Accounting Standards for Business Enterprises — Basic Standards to prescribe the recognition, measurement, and disclosure of relevant information regarding the impairment of assets.

Article 2 Impairment of an asset refers to the situation where the recoverable amount of the asset is lower than its carrying amount.

For the purposes of these Standards, the term "asset," unless otherwise specified, includes individual assets and groups of assets.

An asset group is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or groups of assets.

Article 3 The following items are subject to other relevant accounting standards:

(1) Impairment of inventories is governed by Accounting Standards for Business Enterprises No. 1 — Inventories.

(2) Impairment of investment properties measured using the fair value model is governed by Accounting Standards for Business Enterprises No. 3 — Investment Properties.

(3) Impairment of consumable biological assets is governed by Accounting Standards for Business Enterprises No. 5 — Biological Assets.

(4) Impairment of assets arising from construction contracts is governed by Accounting Standards for Business Enterprises No. 15 — Construction Contracts.

(5) Impairment of deferred tax assets is governed by Accounting Standards for Business Enterprises No. 18 — Income Taxes.

(6) Impairment of unguaranteed residual values in finance leases for lessors is governed by Accounting Standards for Business Enterprises No. 21 — Leases.

(7) Impairment of financial assets governed by Accounting Standards for Business Enterprises No. 22 — Recognition and Measurement of Financial Instruments is subject to those standards.

(8) Impairment of unproven oil and gas exploration rights is governed by Accounting Standards for Business Enterprises No. 27 — Petroleum and Natural Gas Extraction.

Chapter II Identification of Assets That May Be Impaired

Article 4 An enterprise shall assess at the balance sheet date whether there are indications that an asset may be impaired.

Goodwill arising from business combinations and intangible assets with indefinite useful lives shall be tested for impairment annually, regardless of whether there are any indications of impairment.

Article 5 The following indications suggest that an asset may be impaired:

(1) The asset's market price has declined significantly more than would be expected as a result of the passage of time or normal use.

(2) Significant changes in the technological, market, economic, or legal environment in which the enterprise operates or in the market to which the asset is dedicated have occurred or are expected to occur in the near term, and these changes will have an adverse impact on the enterprise.

(3) Market interest rates or other market rates of return on investments have increased during the period, which are

likely to affect the discount rate used in calculating the asset's expected future cash flows and result in a significant reduction in the asset's recoverable amount.
(4) There is evidence that the asset is obsolete or physically damaged.
(5) The asset is or will be idle, discontinued, or disposed of earlier than planned.
(6) Internal reporting indicates that the economic performance of the asset is or will be worse than expected, such as net cash flows generated by the asset or operating profit (or loss) realized being significantly lower (or higher) than budgeted.
(7) Other indications that the asset may be impaired.

Chapter III Measurement of the Recoverable Amount of an Asset
Article 6 If there are indications that an asset may be impaired, its recoverable amount shall be estimated.
The recoverable amount shall be the higher of the asset's fair value less costs of disposal and its present value of expected future cash flows.

Costs of disposal include legal fees, related taxes, transportation costs, and other direct costs necessary to bring the asset into a condition for sale.

Article 7 If either the fair value less costs of disposal or the present value of expected future cash flows exceeds the asset's carrying amount, the asset is not impaired, and there is no need to estimate the other amount.

Article 8 The fair value less costs of disposal shall be determined based on the price in a binding sale agreement, less directly attributable disposal costs.
If there is no binding sale agreement but an active market exists for the asset, the fair value less costs of disposal shall be determined based on the asset's market price less disposal costs. The market price shall generally be determined based on the buyer's bid.
If there is neither a binding sale agreement nor an active market, the fair value less costs of disposal shall be estimated based on the best available information, which may include reference to the most recent transactions for similar assets in the same industry.
If the fair value less costs of disposal cannot be reliably estimated using the above methods, the recoverable amount shall be determined based on the present value of the asset's expected future cash flows.

Article 9 The present value of expected future cash flows shall be determined by discounting the expected future cash flows generated from the continued use and ultimate disposal of the asset using an appropriate discount rate.
The calculation shall consider the expected future cash flows, useful life, and discount rate of the asset.

Article 10 Expected future cash flows shall include:
(1) Cash inflows expected from the continued use of the asset.
(2) Cash outflows necessarily incurred to generate the cash inflows from continued use (including cash outflows to bring the asset to a usable condition). These outflows must be directly attributable or reasonably and consistently allocable to the asset.
(3) Net cash flows received or paid upon disposal of the asset at the end of its useful life. These flows shall reflect the amount expected to be received or paid in an arm's length transaction between knowledgeable and willing parties, less estimated disposal costs.

Article 11 When estimating future cash flows, management shall make reasonable and supportable assumptions about the economic conditions over the asset's remaining useful life.
Expected future cash flows shall be based on the most recent financial budgets or forecasts approved by management, with stable or declining growth rates applied thereafter. If management can justify an increasing growth rate, it may be used.
Budgeted or forecasted cash flows shall not exceed five years unless a longer period can be justified.
Growth rates used for periods beyond the budget or forecast shall not exceed the long-term average growth rate for the product, market, industry, or country/region in which the asset operates, unless a higher rate can be justified.

Article 12 Expected future cash flows shall be based on the asset's current condition and shall not include:

Future cash flows related to potential restructuring or improvements that have not yet been committed.

Cash inflows or outflows from financing activities or income tax payments.
If a restructuring has been committed, the estimated future cash flows shall reflect cost savings and other benefits from the restructuring, as well as estimated outflows related to the restructuring. These amounts shall be based on management-approved budgets or forecasts, and estimated restructuring-related outflows shall be recognized in accordance with Accounting Standards for Business Enterprises No. 13 — Contingencies.

Article 13 The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and asset-specific risks. It shall represent the required rate of return for acquiring or investing in the asset.
If the expected future cash flows already reflect asset-specific risks, the discount rate need not include these risks. If the discount rate is determined on a post-tax basis, it shall be adjusted to a pre-tax rate.

Article 14 If expected future cash flows are denominated in a foreign currency, the present value shall be calculated in the currency of the expected cash flows using an appropriate discount rate, then translated into the reporting currency using the spot exchange rate on the calculation date.

Chapter IV Recognition of Impairment Losses
Article 15 If the recoverable amount is lower than the carrying amount, the difference shall be recognized as an impairment loss in profit or loss, with a corresponding impairment provision.

Article 16 After recognizing an impairment loss, depreciation or amortization of the impaired asset shall be adjusted in future periods to systematically allocate the revised carrying amount (less estimated residual value) over its remaining useful life.

Article 17 Once recognized, impairment losses shall not be reversed in subsequent periods.

Chapter V Identification of Asset Groups and Impairment Treatment
Article 18 If there are indications of impairment, the recoverable amount shall be estimated for individual assets. If this is not possible, the recoverable amount shall be determined for the asset group to which the asset belongs.
An asset group shall be identified based on whether its primary cash inflows are independent of other assets or groups. Management's approach to operations (e.g., by production line, business segment, or region) and decisions on asset use or disposal shall also be considered.

If a group of assets produces a product (or other output) with an active market, the group shall be treated as an asset group, even if some or all output is for internal use. If internal transfer pricing affects cash inflows, management's best estimate of fair value shall be used.
Once determined, the asset group shall remain consistent across periods unless a change is justified and disclosed.

Article 19 The basis for determining the carrying amount of an asset group shall be consistent with the method for determining its recoverable amount.
The carrying amount shall include directly attributable assets and those reasonably allocated to the group, but generally not liabilities, unless excluding them would prevent determination of the recoverable amount.
The recoverable amount of an asset group shall be the higher of its fair value less costs of disposal and the present value of its expected future cash flows.
If disposal requires the buyer to assume a liability (e.g., environmental restoration), and the liability is included in the asset's carrying amount, the liability shall be deducted when comparing the carrying amount and recoverable amount.

Article 20 Corporate assets (e.g., headquarters buildings, IT equipment) typically do not generate independent cash inflows and cannot be fully allocated to a single asset group.
If there are indications of impairment, the recoverable amount of the relevant asset group(s) shall be determined and compared to the carrying amount to assess impairment.
An asset group combination is the smallest group of asset groups that includes the tested asset group and the portion of corporate assets allocable to it.

Article 21 For impairment testing of an asset group:
(1) Allocate corporate assets that can be reasonably and consistently allocated to the asset group, then compare the combined carrying amount (including allocated corporate assets) to the recoverable amount.
(2) For corporate assets that cannot be reasonably allocated:

First, test the asset group without corporate assets.

Then, identify the smallest asset group combination that includes the tested asset group and allocable corporate assets.

Finally, compare the combination's carrying amount (including allocated corporate assets) to its recoverable amount.

Article 22 If the recoverable amount of an asset group or combination (including allocated corporate assets and goodwill) is lower than its carrying amount, the impairment loss shall first reduce the carrying amount of goodwill allocated to the group, then be allocated proportionally to other assets based on their carrying amounts.
The reduced carrying amount of each asset shall not be lower than the highest of:

Its fair value less costs of disposal (if determinable),

Its present value of expected future cash flows (if determinable), or

Zero.
Any unallocated impairment loss shall be reallocated proportionally to other assets.

Chapter VI Impairment of Goodwill

Article 23 Goodwill arising from business combinations shall be tested for impairment annually.

Goodwill shall be tested in combination with the related asset group(s) that benefit from the synergies of the business combination, which shall not exceed the reporting segments determined under Accounting Standards for Business Enterprises No. 35 — Segment Reporting.

Article 24 For impairment testing, goodwill shall be allocated to relevant asset groups from the acquisition date using a reasonable method. If allocation to a specific asset group is not possible, it shall be allocated to a relevant asset group combination.

Allocation shall be based on the relative fair values of the asset groups. If fair values cannot be reliably measured, allocation shall be based on relative carrying amounts.

If a restructuring affects the allocation, goodwill shall be reallocated using a similar method.

Article 25 When testing an asset group or combination that includes goodwill:

(1) First, test the asset group or combination without goodwill.

(2) Then, test the group or combination including goodwill. If the recoverable amount is lower than the carrying amount, recognize an impairment loss as per Article 22.

Chapter VII Disclosure

Article 26 An enterprise shall disclose in the notes:

(1) The amount of impairment losses recognized during the period.

(2) The cumulative amount of impairment provisions.

(3) For segment reporting, the impairment loss recognized for each reportable segment.

Article 27 For significant impairment losses, disclose:

(1) For individual assets: the nature of the asset and, if applicable, the reportable segment to which it belongs.

(2) For asset groups:

Basic information about the group.

The impairment loss recognized for each asset in the group.

Changes in the group's composition, with explanations.

Article 28 For significant impairments, disclose the method for determining the recoverable amount:

(1) If based on fair value less costs of disposal, disclose the basis for estimating fair value.

(2) If based on present value of expected future cash flows, disclose the discount rate and, if applicable, the discount rate used in prior periods.

Article 29 Disclosures under Article 26(1)-(2) and Article 27(2)(2) shall be categorized by asset type, based on the nature or function of the assets.

Article 30 If a significant portion of goodwill is allocated to an asset group, disclose:

(1) The carrying amount of goodwill allocated.
(2) The method for determining the recoverable amount:

For fair value less costs of disposal, disclose key assumptions and their basis, and whether they align with historical experience or external sources.

For present value of expected future cash flows, disclose key assumptions, their basis, and the discount rate.

Article 31 If goodwill is allocated to multiple asset groups and no single allocation is significant, disclose the total amount allocated.
If the total allocated to multiple groups is significant and based on the same key assumptions, disclose:
(1) The total allocated carrying amount.
(2) Key assumptions and their basis.
(3) Whether assumptions align with historical experience or external sources.

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