TOPIC 12

INDAS – 36

IMPAIRMENT OF ASSETS

Note:

Dear Students, this topic covers AS 28 concepts and questions as the lecture was taken 15 days before the exclusions made by ICAI. My suggestion is, u can watch all the lectures of this topic with practice of AS 28 questions also as it will increase ur knowledge for practical experience. But if don't have enough time for exams then u can also skip the content of AS 28 along with the lectures of AS 28.

INDEX

Quote:-

Explore. Learn. Discover. Then when you find YOUR THING, OWN IT!

NON APPLICABILITY:

AS – 28 (Not Applicable frm May20 Onwards)	INDAS – 36
Inventories (covered AS 2)	Inventories (as covered in Ind AS 2)
Assets arising from construction contracts (AS 7)	Contract assets and assets arising from costs to obtain or fulfill a contract (Ind AS 115)
Deferred tax assets (AS 22)	Deferred tax assets (Ind AS 12)
-	Assets arising from employees benefits (Ind AS 19)
-	**Biological Assets measured at fair value less cost to sell (Ind AS 41)**
-	Deferred acquisition costs and intangible assets arising from insurance contracts (Ind AS 104)
-	Non-current assets (or disposal groups) classified as held for sale (as covered in Ind AS 105)
Financial Assets including Investments covered under AS 13	Financial Assets (within the scope of Ind AS 109)

INDAS 36 applies to financial assets classified as:

Subsidiaries, as defined in Ind AS 110, Consolidated Financial Statements

Associates, as defined in Ind AS 28 Investments in Associates and Joint Ventures

Joint ventures, as defined in Ind AS 111, Joint Arrangements

RELEVANT DEFINITIONS

1. **Carrying amount** is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

2. A **Cash-generating unit** is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

3. **Corporate assets** are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.

4. **Costs of disposal** are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

5. **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an **orderly transaction** between market participants at the measurement date (refer Ind AS 113 Fair Value Measurement).

6. **Net selling price** is the amount obtainable from the sale of an asset in an **arm's length transaction** between knowledgeable, willing parties, less the costs of disposal. **(AS 28)**

7. An **Impairment loss** is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

8. The **Recoverable amount** of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use (INDAS 36)

   As per AS 28 – Recoverable Amount means = Higher of Net Selling Price and Value in Use.

9. **Useful life** is either: a) the period of time over which an asset is expected to be used by the entity; or b) the number of production or similar units expected to be obtained from the asset by the entity.

10. **Value in use** is the present value of the future cash flows expected to be derived from an asset or cash-generating unit and from its disposal at the end of its useful life.

Indications of Impairment

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External source of Information (AS 28 AND INDAS 36)

The following are external source of information which may indicate that an asset is impaired:

a) during the period, an asset's **market value** has **declined significantly** more than would be expected as a result of the passage of time or normal use.;

b) significant changes with an **adverse effect** on the entity have taken place during the period, or will take place in the near future, in the **technological, market, economic or legal environment** in which the entity operates or in the market to which an asset is dedicated;

c) market **interest rates** or other market rates of return on investments have **increased** during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially; and

d) the carrying amount of the net assets of the entity is more than its market capitalisation.

Internal source of Information (AS 28 & INDAS 36)

The following are internal source of information which may indicate that an asset is impaired:

a) evidence is available of **obsolescence or physical damage** of an asset;

b) significant changes with an **adverse effect** on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, **an asset is used or is expected to be used**. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;

c) Evidence is available from internal reporting that indicates that the **economic performance of an asset is, or will be, worse than expected**. Such evidence may include:

(i) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;

(ii) actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;

(iii) a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or

Operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

IN CASH OF INVESTMENT IN SUBSIDIARY JOINT VENTURE OR ASSOCIATE (INDAS 36)

(i) The carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or

(ii) The dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period the dividend is declared.

The above list is not exhaustive. An entity may identify other indications that an asset may be impaired.

Exception of Increase in Market Interest Rate: Even though the market interest rate increases but:

1. Discount rate is unlikely to be affected due to increase in Market Interest Rate
2. Discount rate is likely to be affected but it is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase.
3. Discount rate is likely to be affected but decrease in Recoverable Amount is unlikely to result in a material impairment loss.

IDENTIFYING AN ASSET THAT MAY BE IMPAIRED

Asset is impaired only when Carrying Amount is More than Recoverable Amount =

CA – RA = IMPAIRMENT LOSS

Irrespective of any indication of impairment, Following Assets shall be Tested for Impairment at least annually:	**In case of any indication of impairment at the end of each reporting period:**
Intangible Assets with indefinite useful life (INDAS 38) Intangible Assets not yet available for Use. Goodwill acquired in a Business Combination	ALL OTHER ASSETS Eg. PPE, Investment Properties

MEASUREMENT OF RECOVERABLE AMOUNT

RECOVERABLE AMOUNT	
INDAS 36	**AS 28**
Higher of - Fair Value less cost of disposal and Value in Use	Higher of - Selling Price less cost to sell and Value in Use

FAIR VALUE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (Ind AS 113 Fair Value Measurement).

Steps for assessing Fair value /less costs to sell

⇩

First Preference: Binding sale agreement

⇩

Second Preference: Active market

Current bid price

If current bid prices not available, the price of the most recent transaction

⇩

Third Preference: Best information available at the end of the reporting date

⇩

If all the above are not available: *Ignore Fair value less costs to sell, take Value in use only.*

COST OF DISPOSAL:

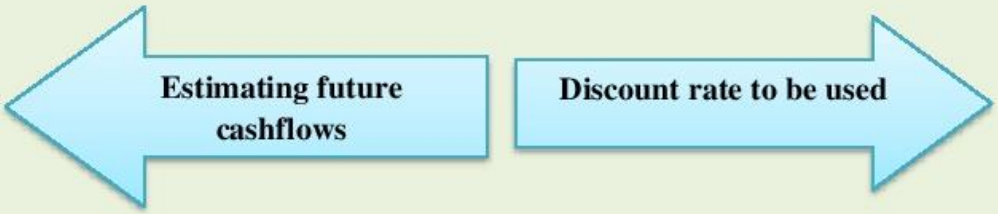
Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.

However, termination benefits (as defined in Ind AS 19) and costs associated with reducing or reorganizing a business following the disposal of an asset are not direct incremental costs to dispose of the asset.

VALUE IN USE:

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

Primarily two key decisions are involved in determining value in use:



When estimating expected future cash flows, the following rules apply:

The benefit of the future reorganization should not be taken into account in calculating value-in-use.

Income tax receipts or payments shall be ignored while estimating future cash flows. Because the discount rate is determined on a pre-tax basis, future cash flows are also estimated on a pre-tax basis.

Foreign currency future cash flows:

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the **spot exchange rate at the date of the value in use calculation.**

Discount rate

The discount rate should be a pre-tax market rate that reflects current market assessments of the: • Time Value of Money • Risks specific to the Assets	When an asset-specific rate is not directly available from the market, the entity uses surrogates to estimate the discount rates. • Entity's weighted average cost of capital • Entity's incremental borrowing rate and • Other market borrowing rates

Contrasting fair value and value in use

Fair value differs from value in use. Fair value reflects the assumptions that market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:

a) additional value derived from the grouping of assets (such as the creation of a portfolio of investment properties in different locations);

b) synergies between the asset being measured and other assets;

c) legal rights or legal restrictions that are specific only to the current owner of the asset; and

d) tax benefits or tax burdens that are specific to the current owner of the asset.

Q98.

Saturn India Ltd is reviewing one of its business segments for impairment. The carrying value of its net assets is 40 million. Management has produced two computations for the value-in-use of the business segment. The first value of Rs 36 million excludes the benefit to be derived from a future reorganization, but the second value of Rs 44 million includes the benefits to be derived from the future reorganization. There is not an active market for the sale of the business segments.

Whether the business segment needs to be Impaired?

Solution

The benefit of the future reorganization should not be taken into account in calculating value-in-use. Therefore, the net assets of the business segment will be impaired by Rs 4 million because the value-in-use of Rs 36 million is lower than the carrying value ofRs 40 million. The value-in-use can be used as the recoverable amount as there is no active market for the sale of the business segment. Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Q98-A

Mars Ltd. gives the following estimates of cash flows relating to property, plant and equipment on 31-03-20X4. The discount rate is 15%

Year	Cash Flow (INR Lakhs)
20X4-20X5	2,000
20X5-20X6	3,000
20X6-20X7	3,000
20X7-20X8	4,000
20X8-20X9	2,000
Residual Value at 31.03.20X9	500

Property, plant & equipment was purchased on 1.04.20X1 for Rs 20,000 lakhs

Useful Life was 8 Years

Residual Value estimated at the end of 8 years Rs 500 lakhs

Fair value less cost to disposal Rs10,000 lakhs

Solution

(a) Calculation of Carrying Amount on 31.03.20X4

(INR lakhs)

Particular	Amount
Original Cost on 1.04.20X1	20,000
Less Depreciation (20,000-500)*3/8	7,313
Carrying Amount	12,687

(b) Calculation of Value in Use

Year	Cash Flows	P.V.	Amount
20X4-20X5	2,000	.869	1,738
20X5-20X6	3,000	.756	2,268
20X6-20X7	3,000	.658	1,974
20X7-20X8	4,000	.572	2,288
20X8-20X9 (including residual value)	2,500	.497	1242
Total			**9,510**

(c) Calculation of Recoverable Amount

Particular	Amount
Value in Use	9,510
Fair value less costs of disposal	10,000
Recoverable Amount	10,000

(d) Calculation of Impairment Loss

Carrying Amount – Recoverable Amount

12,687 – 10,000 = 2,687

(e) Calculation of Revised Carrying Amount

Particular	Amount
Carrying Amount	12,687
Less: Impairment Loss	2,687
Revised Carrying Amount	10,000

(f) Calculation of Revised Depreciation

$$\frac{\text{Revised Carrying Amount} - \text{Residual Value}}{\text{Remaining Life}} = 1900$$

RECOGNISING AND MEASURING AN IMPAIRMENT LOSS

CHARGE TO P&L	CHARGE TO REVALUATION SURPLUS (OCI)	IF IL IS MORE THAN CA	DEPRECIATION AFTER IMPAIRMENT	DEFERRED TAX
Impairment loss shall always be recognised in SPL in case of Assets not subject to Revaluation.	Impairment loss of Assets carried at Revaluation Model (e.g. IndAS 16) shall be treated as Revaluation Decrease. Impairment loss is recognised in OCI to the extent it does not exceed the revaluation surplus on the same asset. Remaining IL if any would be transferred to SPL	If Impairment loss exceeds the carrying amount of asset then the Liability should be recognised in accordance with any related INDAS (eg. IndAS 37) Entire CA shall be w/off.	Depreciation or Amortisation after Impairment should be charged on Revised CA less residual value on systematic basis over its remaining useful life.	DTA/DTL should be worked out as per IndAS 12 by comparing Revised CA with its Tax Base.

Q99

Mercury ltd has an identifiable asset with a carrying amount of Rs1,000. Its recoverable amount is Rs 650. The tax rate is 30% and the tax base of the asset is Rs 800. Impairment losses are not deductible for tax purposes. The effect of the impairment loss is as follows:

Solution:

	Identifiable assets before impairment loss	Impairment loss	Identifiable assets after impairment loss
	Rs	Rs	Rs
Carrying amount	1,000	(350)	650
Tax Base	800	-	800
Taxable (deductible) temporary difference	200	(350)	(150)
Deferred tax liability (asset) at 30%	60	(105)	(45)

In accordance with Ind AS 12, the entity recognises the deferred tax asset to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

Impairment Loss of a Cash-Generating Unit (CGU) and Goodwill

A ***cash-generating unit*** is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Always try to impair Individual Asset first for which indication of impairment exist and estimate the recoverable amount of that individual asset.

If it is not possible to estimate the recoverable amount of the individual asset, an entity is required to determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

When recoverable amount of asset can-not be determined for individual asset –

a) the asset's value in use cannot be estimated to be close to its fair value less costs of disposal (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and

b) the asset does not generate cash inflows that are largely independent of those from other assets.

If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

Q100

A mining entity owns a private railway to support its mining activities. The private railway could be sold only for scrap value and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the mine.

Solution

It is not possible to estimate the recoverable amount of the private railway because its value in use cannot be determined and is probably different from scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the private railway belongs, i.e. the mine as a whole.

Q101

A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

Solution

Since the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit for each route is the bus company as a whole.

ALLOCATION OF ASSETS AND LIABILITIES TO CGU's

Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

Remember one thing – Only those Assets and Liabilities should be considered in carrying amount of CGU which are taken into account for determining Recoverable Amount (i.e. basis should be same)

ASSETS	Includes only those assets that are directly attributable or that can be allocated on reasonable basis to CGU. Goodwill and Corporate Assets (head office assets) should also be included if they are allocable to CGU's on reasonable basis.
LIABILITIES	CA of Liabilities shall be considered in CA of CGU only when the recoverable amount of CGU can-not be determined without consideration of this liability.

If recoverable amount of CGU is determined after considering liability then such liability must be taken into account while calculating Carrying amount of CGU and VIU of CGU.

Q102

A company operates a mine in a country where legislation requires that the owner must restore the site on completion of its mining operations. The cost of restoration includes the replacement of the overburden, which must be removed before mining operations commence. A provision for the costs to replace the overburden was recognised as soon as the overburden was removed. The amount provided was recognised as part of the cost of the mine and is being depreciated over the mine's useful life. The carrying amount of the provision for restoration costs is Rs500, which is equal to the present value of the restoration costs.

The entity is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The entity has received various offers to buy the mine at a price of around Rs800. This price reflects the fact that the buyer will assume the obligation to restore the overburden. Disposal costs for the mine are negligible. The value in use of the mine is approximately Rs1,200, excluding restoration costs. The carrying amount of the mine is Rs 1,000.

Solution

The cash-generating unit's fair value less costs of disposal is Rs 800. This amount considers restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs and is estimated to be Rs 700 (Rs 1,200 less Rs 500). The carrying amount of the cash-generating unit is Rs 500, which is the carrying amount of the mine (Rs 1,000) less the carrying amount of the provision for restoration costs (Rs 500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

IMPAIRMENT OF GOODWILL

Goodwill does not generate cash flows independently of other assets or groups of assets and, therefore, it will always be tested for impairment as part of a CGU or a group of CGUs.

INDAS 36 -

For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, **be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination**, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

AS 28 -

(a) If there is an indication that goodwill may be impaired, recoverable amount is determined for the cash-generating unit to which goodwill belongs. This amount is then compared to the carrying amount of this cash-generating unit and any impairment loss is recognized.

(b) If goodwill can be allocated on a reasonable and consistent basis, an enterprise applies the **'bottomup' test only**. If it is not possible to allocate goodwill on a reasonable and consistent basis, **an enterprise applies both the 'bottom-up' test and 'top-down' test.**

IMPAIRMENT OF CORPORATE ASSETS

Corporate assets are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units. Corporate assets include group or divisional assets such as the building of a headquarters or a division of the entity, EDP equipment or a research center.

The distinctive characteristics of corporate assets are that:

a) they do not generate cash inflows independently of other assets or groups of assets; and

b) their carrying amount cannot be fully attributed to the cash-generating unit under review.

Corporate Assets can-not be tested for impairment individually because they do not generate separate cash flows. Therefore they are allocated on a reasonable basis to different CGU's

Corporate Assets – Allocable to CGU's	Corporate Assets – Not Allocable to CGU's
Apply Bottom-up Approach Allocate the Carrying amount of Corp. Assets to CGU's and applying impairment testing. Impairment loss shall be apportioned between the assets of CGU and Corp. Assets in the ratio of related individual Carrying Amount	Apply Top Down Approach Apply impairment testing of CGU without considering carrying amount of Corp. Assets. Then Compare the RA of entire organization/entity with the CA of all the assets and liabilities including CA of Corp. Assets. If any IL arise then such IL shall be attributed to Corporate Assets.

So finally, when we allocate the Goodwill and Corporate Assets (if any) to a Cash Generating Unit; it's time to calculate the Impairment Loss on CGU by comparing the Carrying Amount of the Unit with its Recoverable Amount. But now question is how to allocate the total impairment loss on CGU to its assets along with Goodwill and Corporate Assets.....

The answer is..... we have to allocate the impairment loss in following order:

1. First of all reduce the carrying amount of allocated Goodwill to CGU (if any)
2. Then the remaining IL shall be allocated to all other Assets including Corporate Assets on pro rata basis of the carrying amount of each asset.

Remember one more thing we can-not allocate the impairment loss more than the carrying amount of asset. It means after allocating impairment loss the revised carrying amount of asset can at maximum be Zero not Negative.

No impairment loss is recognised for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs of disposal is less than its carrying amount.

Q103

Earth Infra Ltd has two cash-generating units, X and Y. There is no goodwill within the units' carrying values. The carrying values of the CGUs are CGU A for Rs 20 million and CGU B for Rs 30 million. The company has an office building which it is using as a office headquarter has not been included in the above values and can be allocated to the units on the basis of their carrying values. The office building has a carrying value of Rs10 million. The recoverable amounts are based on value-in-use of Rs.18 million for CGU A and Rs38 million for CGU B.

Required: Determine whether the carrying values of CGU A and B are impaired.

Solution

The office building is a corporate asset which needs to be allocated to CGU A and B on a reasonable and consistent basis:

	A	B	Total
Carrying value of CGUs	20	30	50
Allocation of office building (Office building is allocated in the ratio of Carrying value of CGU's)	4	6	10
Carrying value of CGU after Allocation of corporate asset	24	36	60
Recoverable Amount	18	38	56
Impairment Loss	6	-	-

The impairment loss will be allocated on the basis of 4/24 against the building (Rs.1 million) and 20/24 against the other assets (Rs. 5 million).

REVERSAL OF IMPIRMENT LOSS

GOODWILL - An impairment loss recognised for goodwill shall not be reversed in a subsequent period. Since reversal will cause increase in Goodwill which is prohibited by IndAS 38 (increase in goodwill is treated as increase in internally generated assets)

AS 28 - An impairment loss recognised for goodwill should not be reversed in a subsequent period unless:

a. The impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur; and

b. Subsequent external events have occurred that reverse the effect of that event.

ASSETS other than Goodwill – If there is an Indication that shows Impairment Loss recognised earlier may no longer exists or may have decreased, then entity shall revers the impairment loss and accordingly recoverable amount is to be determined.

CONDITIONS OF REVERSAL OF IL:

Change in Estimate used to determine the Asset's recoverable amount since the last impairment was recognised. Such change in estimate may include:

- Change in estimate of **components of Fair Value less cost of disposal** (if recoverable amount was based on Fair Value)
- Change in the **amount or timing of estimated future cash flows or in the discount rate** (if recoverable amount was based on Value in use)

INDICATORS OF REVERSAL OF IMPAIRMENT LOSS:

External –

- Asset's value has increased significantly during the period;
- Significant changes with a favorable effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated; and
- Market Interest rates or other market rates of return on investments have decreased during the period, and it is directly affecting the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

Internal -

- Asset's performance has been significantly improved or will be improved which is favourable for the enity. It may be **because of Cost incurred during the period to**

improve or enhance the performance or Cost incurred to restructured the operation during the period.

- Evidence is available from internal reporting that indicates that the **economic performance of the asset is, or will be, better than expected.**

MAXIMUM AMOUNT OF REVERSAL OF IMPAIRMENT LOSS:

Reversal shall not exceed the higher of following –

- Recoverable Amount Less Carrying Amount of Assets
- Earlier Impairment Loss – Saving in Depreciation/Amortisation due to impairment

(In short the increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.)

RECOGNITION OF IMPAIRMENT LOSS:

Assets under Cost Model – Recognise immediately in Profit and Loss.

Assets under Revalued Model – Treat it as Revaluation Increase and recognise it in OCI, however to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss.

REVERSAL OF IL OF CGU:

A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, **except for goodwill, pro rata with the carrying amounts of those assets.**

REVIEW OF USEFUL LIFE, DEPRECIATION METHOD AND RESIDUAL VALUE:

Due to the indications existed as above it may be possible that there is change in estimated useful life of assets, change in depreciation (amortization) method used, or change in estimated residual value. So be very careful in this respect and we have to review such elements even if no impairment loss is reversed.

Q104: Reversal of Impairment Loss

On 1st April 20X1, Venus ltd acquired 100% of Saturn ltd for Rs 4,00,000. The fair value of the net identifiable assets of Saturn ltd was Rs 3,20,000 and goodwill was Rs 80,000. Saturn ltd is in coal mining business. On 31st March 20X3 the government has cancelled licenses given to it in few states.

As a result Saturn's ltd revenue is estimated to get reduce by 30%. The adverse change in market place and regulatory conditions is an indicator of impairment. As a result, Venus ltd has to estimate the recoverable amount of goodwill and net assets of Saturn ltd on 31st March 20X3.

Venus ltd uses straight line depreciation. The useful life of Saturn's ltd assets is estimated to be 20 years with no residual value. No independent cash inflows can be identified to any individual assets. So the entire operation of Saturn ltd is to be treated as a CGU. Due to the regulatory entangle it is not possible to determine the selling price of Saturn ltd as a CGU. Its value in use is estimated by the management at Rs 2,12,000.

Suppose by 31st March 20X5 the government reinstates the licenses of Saturn ltd. The management expects a favorable change in net cash flows. This is an indicator that an impairment loss may have reversed. The recoverable amount of Saturn's ltd net asset is re-estimated. The value in use is expected to be Rs3,04,000 and net selling price is expected to be Rs2,90,000.

Solution

Since the fair value less costs of disposal is not determinable the recoverable amount of the CGU is its value in use. The carrying amount of the assets of the CGU on 31st March 20X3 is as follows:

INR			
	Goodwill	**Other assets**	**Total**
Historical Cost	80,000	3,20,000	4,00,000
Accumulated Depreciation (3,20,000/20) x 2	-	(32,000)	(32,000)
Carrying Amount	80,000	2,88,000	3,68,000
Impairment Loss	(80,000)	(76,000)	(1,56,000)

Revised Carrying Amount

Impairment Loss = Carrying Amount – Recoverable Amount (Rs 3,68,000 – Rs 2,12,000) = Rs 1,56,000 is charged in statement of profit and loss for the period ending 31st March 20X3 as impairment loss.

Impairment loss is allocated first to goodwill Rs 80,000 and remaining loss of Rs 76,000 (Rs 1,56,000 – Rs 80,000) is allocated to the other assets.

Reversal of Impairment loss

Reversal of impairment loss is recognised subject to:-

The impairment loss on goodwill cannot be reversed.

The increased carrying amount of an asset after reversal of an impairment loss not to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Calculation of carrying amount of identifiable assets had no impairment loss is recognize

	INR
Historical Cost	3,20,000
Accumulated Depreciation for 4 years (3,20,000/20) x 4	(64,000)
Carrying amount had no impairment loss is recognised on 31st March 20XS	2,56,000

Carrying amount of other assets after recognition of impairment loss

	INR
Carrying amount on 31st March 20X3	2,12,00 0
Accumulated Depreciation for 2 years (2,12,000/18) x 2 [rounded off to nearest thousand for ease of calculation]	(24,000)
Carrying amount on 31st March 20XS	1,88,000

The impairment loss recognised previously can be reversed only to the extent of lower of re-estimated recoverable amount is Rs 2,56,000 (higher of fair value less costs of disposal Rs 2,90,000 and value in use Rs 3,04,000)

Impairment loss reversal will be Rs 68,000 i.e. (Rs 2,56,000 – Rs 1,88,000). This amount is recognised as income in the statement of profit and loss for the year ended 31st March 20XS.

The carrying amount of other assets at 31st March 20XS after reversal of impairment loss will be Rs 2,56,000.

From 1st April 20XS the depreciation charge will be Rs 16,000 i.e. (Rs 2,56,000/16)

DISCLOSURES:

An entity is required to disclose the following for each class of assets:

a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included;

b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed;

c) the amount of impairment losses on revalued assets recognised in other comprehensive income during the period; and

d) the amount of reversals of impairment losses on revalued assets recognised in other comprehensive income during the period.

If any portion of the goodwill acquired in a business combination during the period has not been allocated to a cash-generating unit (group of units) at the end of the reporting period, the amount of the unallocated goodwill shall be disclosed together with the reasons why that amount remains unallocated.

ADDITIONAL QUESTIONS

QUESTIONS FROM INDAS 36

Q105

From the following details of an asset, find out:

(a) Impairment loss and its treatment.

(b) Current year depreciation.

Particulars of assets:

Cost of asset	Rs 56 lakhs
Useful life	10 years
Salvage value	Nil
Current carrying value	Rs 27.30 lakhs
Remaining useful life	3 years
Recoverable amount	Rs12 lakhs
Upward revaluation done in last year	Rs 14 lakhs

Solution:

Impairment loss

Impairment loss = Carrying amount of the asset – Recoverable amount

= Rs 27.30 lakhs – Rs 12 lakhs = Rs 15.30 lakhs

Treatment of impairment loss

As per Ind AS 36, impairment loss (whether of an individual asset of a CGU) is recognised in the following manner:

(a) Impairment loss of a revalued asset: It is recognised in other comprehensive income to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset. The balance, if any, is recognised as an expense in the statement of profit and loss.

(b) Impairment loss of other assets: Impairment loss of any other asset should be recognised as an expense in the statement of profit and loss.

Since, the asset in question has been revalued upwards, the impairment loss will be adjusted first against the revaluation surplus of Rs 14 lakhs. The balance amount of Rs 1.30 lakhs will be recognised as an expense in the profit and loss account.

Current year depreciation

Revised carrying amount (after recognising impairment loss) Rs 12 lakhs

Remaining useful life 3 years

Salvage value Nil

Annual depreciation (12/3) Rs 4 lakhs

Q106

Venus Ltd. has an asset, which is carried in the Balance Sheet on March 31, 20X1 at Rs500 lakhs. As at that date the value in use is Rs 400 lakhs and the fair value less costs to sells is Rs375 lakhs. From the above data:

(a) Calculate impairment loss.

(b) Prepare journal entries for adjustment of impairment loss.

(c) Show, how impairment loss will be shown in the Balance Sheet.

Solution

According to Ind AS 36, Impairment of Assets, impairment loss is the excess of 'Carrying amount of the asset' over 'Recoverable Amount'.

In the present case, the impairment loss can be computed in the following manner:

Step 1: Fair value less costs to sell: Rs 375 lakhs

Step 2: Value in use: Rs 400 lakhs

Step 3: Recoverable amount, i.e., higher of 'fair value less costs to sell' & 'value in use'.

Thus, recoverable amount is Rs 400 lakhs

Step 4: Carrying amount of the asset Rs 500 lakhs

Step 5: Impairment loss, i.e., excess of amount computed in step 4 over amount computed in Step 3.

Rs 100 lakhs (being the difference between Rs 500 lakhs and Rs 400 lakhs).

According to Ind AS 36, an impairment loss should be recognised as an expense in the statement of profit and loss immediately, unless the asset is carried at revalued amount in accordance with another Accounting Standard. Assuming, that the asset is not carried at revalued amount, the impairment loss of Rs 100 lakhs will be charged to Profit & Loss Account.

Journal Entries

Date	Particulars		Dr. Amt.	Cr. Amt.
				Rs.
31.3.20X1	Impairment Loss A/c	Dr.	100	
	To Assets A/c			100
(Being impairment loss on an asset recognised)				
31.3.20X1	Statement of Profit & Loss A/c	Dr.	100	
	To Impairment Loss A/c			100
(Being impairment loss transferred to statement of profit and loss)				

Q107

A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment. What is the cash-generating unit for an individual magazine title?

Solution

It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customer segment, cash inflows from direct sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis. Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent of each other and that each magazine title is a separate cash-generating unit.

Q108

A mining entity owns a private railway to support its mining activities. The private railway could be sold only for scrap value and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the mine. Should the entity determine the recoverable amount for the private railway or for the mining business as a whole?

Solution

It is not possible to estimate the recoverable amount of the private railway because its value in use cannot be determined and is probably different from scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the private railway belongs, i.e., the mine as a whole.

Q109

A bus company provides services under contract with a municipality that requires minimum service on each of seven separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss. Should the company determine the recoverable amount for an individual asset or for a cash generating unit?

Solution

Because the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the seven routes together. The cash-generating unit for each route is the bus company as a whole.

Q110

A significant raw material used for plant Y's final production is an intermediate product bought from plant X of the same entity. X's products are sold to Y at a transfer price that passes all margins to X. 80% of Y's final production is sold to customers outside of the entity.
60% of X's final production is sold to Y and the remaining 40% is sold to customers outside of the entity. For each of the following cases, what are the cash-generating units for X and Y?

(a) If X could sell the products it sells to Y in an active market and internal transfer prices are higher than market prices, what are the cash-generating units for X and Y?

(b) If there is no active market for the products X sells to Y, what are the cash-generating units for X and Y?

Solution

(a) Cash-generating unit for X: X could sell its products in an active market and, so, generate cash inflows that would be largely independent of the cash inflows from Y. Therefore, it is likely that X is a separate cash-generating unit, although part of its production is used by Y.

Cash-generating unit for Y: It is likely that Y is also a separate cash-generating unit. Y sells 80% of its products to customers outside of the entity. Therefore, its cash inflows can be regarded as largely independent.

Effect of internal transfer pricing: Internal transfer prices do not reflect market prices for X's output. Therefore, in determining value in use of both X and Y, the entity adjusts financial budgets/forecasts to reflect management's best estimate of future prices that could be achieved in arm's length transactions for those of X's products that are used internally.

(b) Cash-generating units for X and Y: It is likely that the recoverable amount of each plant cannot be assessed independently of the recoverable amount of the other plant because:

(i) the majority of X's production is used internally and could not be sold in an active market. So, cash inflows of X depend on demand for Y's products. Therefore, X cannot be considered to generate cash inflows that are largely independent of those of Y.

(ii) the two plants are managed together.

As a consequence, it is likely that X and Y together are the smallest group of assets that generates cash inflows that are largely independent.

Q III

XYZ Limited produces a single product and owns plants 1, 2 and 3. Each plant is located in a different country. Plant 1 produces a component that is assembled in either Plant 2 or Plant 3. The combined capacity of Plant 2 and Plant 3 is not fully utilised. XYZ Limited's products are sold worldwide from either Plant 2 or Plant 3, e.g., Plant 2's production can be sold in Plant 3's country if the products can be delivered faster from Plant 2 than from Plant 3. Utilisation levels of Plant 2 and Plant 3 depend on the allocation of sales between the two sites. If there is no active market for Plant 1's products, what are the cash-generating units for Plant 1, Plant 2 and Plant 3?

Solution

It is likely that the recoverable amount of each plant cannot be assessed independently because:

(a) There is no active market for Plant 1's products. Therefore, Plant 1's cash inflows depend on sales of the final product by Plant 2 and Plant 3.

(b) Although there is an active market for the products assembled by Plant 2 and Plant 3, cash inflows for Plant 2 and Plant 3 depend on the allocation of production across the two sites. It is unlikely that the future cash inflows for Plant 2 and Plant 3 can be determined individually.

As a consequence, it is likely that Plant 1, Plant 2 and Plant 3 together (i.e., XYZ Limited as a whole) are the smallest identifiable group of assets that generates cash inflows that are largely independent.

Q112

A company operates a mine in a country where legislation requires that the owner must restore the site on completion of its mining operations. The cost of restoration includes the replacement of the overburden, which must be removed before mining operations commence. A provision for the costs to replace the overburden was recognised as soon as the overburden was removed. The amount provided was recognised as part of the cost of the mine and is being depreciated over the mine's useful life. The carrying amount of the provision for restoration costs is Rs500, which is equal to the present value of the restoration costs.

The entity is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The entity has received various offers to buy the mine at a price of around Rs800. This price reflects the fact that the buyer will assume the obligation to restore the overburden. Disposal costs for the mine are negligible. The value in use of the mine is approximately Rs1,200 excluding restoration costs. The carrying amount of the mine is Rs1,000. Is the mine required to be impaired?

Solution

The cash-generating unit's fair value less costs to sell is Rs800. This amount considers restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs and is estimated to be Rs 700 (Rs 1,200 less Rs 500). The carrying amount of the cash-generating unit is Rs 500, which is the carrying amount of the mine (Rs 1,000) less the carrying amount of the provision for restoration costs (Rs 500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount. Thus, there is no impairment loss.

Q113

An entity sells for Rs100 crores an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is Rs300 crores. How the goodwill should be allocated to the operation sold?

Solution

Since goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25% of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

Q114

Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D. How the goodwill should be reallocated to B, C and D?

Solution

Since goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

Q115

XYZ Limited has a cash-generating unit 'Plant A' as on April 1, 20X1 having a carrying amount of Rs1,000 crores. Plant A was acquired under a business combination and goodwill of Rs200 crores was allocated to it. It is depreciated on straight line basis. Plant A has a useful life of 10 years with no residual value. On March 31, 20X2, Plant A has a recoverable amount of Rs 600 crores. Calculate the impairment loss on Plant A. Also, prescribe its allocation as per Ind AS 36.

Solution

Particulars	Goodwill (Rsin crores)	Identifiable assets (Rs in crores)	Total (Rs in crores)
Historical cost	200	1,000	1,200
Depreciation (20X1-20X2)	-	(100)	(100)
Carrying amount	200	900	1,100

Since, the recoverable amount is Rs 600 crores, there is an impairment loss of Rs 500 crores. The impairment loss of Rs 500 crores should be allocated to goodwill first, and then to the other identifiable assets, i.e., Rs 200 crores to goodwill and Rs 300 crores to identifiable assets of Plant A.

(Rsin crores)

Particulars	Goodwill	Identifiable assets	Total
Impairment loss	(200)	(300)	(500)
Carrying amount after impairment loss	-	600	600

Q116

SUN ltd is an entity with various subsidiaries. The entity closes its books of account at every year ended on 31st March. On 1st July 20X1 Sun ltd acquired an 80% interest in Pluto ltd. Details of the acquisition were as follows:

- Sun ltd acquired 800,000 shares in Pluto ltd by issuing two equity shares for every five acquired. The fair value of Sun Ltd's share on 1st July 20X1 was Rs 4 per share and the fair value of a Pluto's share was Rs1·40 per share. The costs of issue were 5% per share.

- Sun ltd incurred further legal and professional costs of Rs100,000 that directly related to the acquisition.

- The fair values of the identifiable net assets of Pluto Ltd at 1st July 20X1 were measured at Rs 1·3 million. Sun ltd initially measured the non-controlling interest in Pluto ltd at fair value. They used the market value of a Pluto ltd share for this purpose. No impairment of goodwill arising on the acquisition of Pluto ltd was required at 31st March 20X2 or 20X3.

Pluto ltd comprises three cash generating units A, B and C. When Pluto ltd was acquired the directors of Sun ltd estimated that the goodwill arising on acquisition could reasonably be allocated to units A:B:C on a 2:2:1 basis. The carrying values of the assets in these cash generating units and their recoverable amounts are as follows:

Unit	Carrying value (before goodwill allocation)	Recoverable amount
	Rs 000	Rs 000
A	600	740
B	550	650
C	450	400

Required:

(i) Compute the carrying value of the goodwill arising on acquisition of Pluto Ltd in the consolidated Balance Sheet of Sun ltd at 31st March 20X4 following the impairment review.

(ii) Compute the total impairment loss arising as a result of the impairment review, identifying how much of this loss would be allocated to the non-controlling interests in Pluto ltd.

Solution

1. Computation of goodwill on acquisition

Particular	Amount(Rs 000)
Cost of investment (8,00,000 x 2/5 x Rs 4)	1,280
Fair value of non-controlling interest (2,00,000 x Rs 1·4)	280
Fair value of identifiable net assets at date of acquisition	(1,300)
So goodwill equals	260

Acquisition costs are not included as part of the fair value of the consideration given under Ind AS 103, Business Combination.

2. Calculation of impairment loss

Unit	Carrying value			Recoverable Amount	Impairment Loss
	Before Allocation	Allocation of goodwill (2:2:1)	After Allocation		
A	600	104	704	740	Nil
B	550	104	654	650	4
C	400*	52	452	400	52

* After writing down assets in the individual CGU to recoverable amount.

3. Calculation of closing goodwill

Goodwill arising on acquisition (W1)	260
Impairment loss (W2)	(56)
So closing goodwill equals	204

4. Calculation of overall impairment loss

on goodwill (W3)	56
on assets in unit C (450 – 400)	50
So total loss equals	106

Rs 21·2 (20%) of the above is allocated to the NCI with the balance allocated to the shareholders of Sun ltd.

Q117 (Exam - Nov 18)

XYZ Limited has three cash-generating units - X, Y and Z, the carrying amounts of which as on 31st March, 2018 are as follows:

Cash Generating Units	Carrying Amount (Rs in lakh)	Remaining useful life in years
X	800	20
Y	1000	10
Z	1200	20

XYZ Limited also has corporate assets having a remaining useful life of 20 years as given below:

Corporate Assets	Carrying amount (Rs in lakh)	Remarks
AU	800	The carrying amount of AU can be allocated on a reasonable basis to the individual cash generating units.
BU	400	The carrying amount of BU cannot be allocated on a reasonable basis to the individual cash-generating units.

Recoverable amounts as on 31st March, 2018 are as follows:

Cash-generating units	Recoverable amount (Rs in lakh)
X	1000
Y	1200
Z	1400
XYZ Limited	3900

Calculate the impairment loss if any of XYZ Ltd. Ignore decimals. **(10 Marks)**

Solution:

(i) Allocation of corporate assets to CGU

The carrying amount of AU is allocated to the carrying amount of each individual cash-generating unit. A weighted allocation basis is used because the estimated remaining useful life of Y's cash-generating unit is 10 years, whereas the estimated remaining useful lives of X and Z's cash-generating units are 20 years.

					(Rs in lakh)
	Particulars	**X**	**Y**	**Z**	**Total**
(a)	Carrying amount	800	1000	1,200	3,000
(b)	Useful life	20 years	10 years	20 years	
(c)	Weight based on useful life	2	1	2	
(d)	Carrying amount (after assigning weight) (a x c)	1,600	1,000	2,400	5,000
(e)	Pro-rata allocation of AU	32%	20%	48%	100%
(f)	Allocation of carrying amount of AU (32: 20: 48)	(1,600/5,000) 256	(1,000/5,000) 160	(2,400/5,000) 384	800
(g)	Carrying amount (after allocation of AU) (a+f)	1,056	1,160	1,584	3,800

(ii) Calculation of impairment loss

Step 1: Impairment losses for individual cash-generating units and its allocation

(a) Impairment loss of each cash-generating unit

Rs in lakh)			
Particulars	**X**	**Y**	**Z**
Carrying amount (after allocation of AU)	1,056	1,160	1,584
Recoverable amount	1,000	1,200	1,400
Impairment loss	56	Nil	184

(b) Allocation of the impairment loss (after rounding off)

(Rs in lakh)				
Allocation to	**X**		**Z**	
AU	14	(56x256/1,056)	45	(184x384/1,584)
Other assets in cash-generating units	42	(56x800/1056)	139	(184x1,200/ 1,584)
Impairment loss	56		184	

Step 2: Impairment loss for the larger cash-generating unit, i.e., XYZ Ltd. as a whole

						Rs in lakh
Particulars	**X**	**Y**	**Z**	**AU**	**BU**	**XYZ Ltd.**
Carrying amount	800	1,000	1,200	800	400	4,200
Impairment loss (Step 1)	(42)	-	(139)	(59)*	-	(240)
Carrying amount (after Step 1)	758	1,000	1,061	741	400	3,960
Recoverable amount						3,900
Impairment loss for the 'larger' cash-generating unit						60

*Rs14 lakh + Rs 45 lakh = Rs 59 lakh.

QUESTIONS FROM AS – 28 (if u want u can skip these questions and respective lecture)

Q118

Good Drugs and Pharmaceuticals Ltd. acquired a sachet filling machine on 1st April, 2007 for Rs. 60 lakhs. The machine was expected to have a productive life of 6 years. At the end of financial year 2007-08 the carrying amount was Rs. 41 lakhs. A short circuit occurred in this financial year but luckily the machine did not get badly damaged and was still in working order at the close of the financial year. The Machine was expected to fetch Rs. 36 lakhs, if sold in the market. The machine by itself is not capable of generating cash flows. However the smallest group of assets comprising of this machine also, is capable of generating cash flows of Rs. 54 crore per annum and has a carrying amount of Rs. 3.46 crore. All such machines put together could fetch a sum Rs. 4.44 crore if disposed. Discuss the applicability of impairment loss.

Solution:- As per provisions of Para 91(b) of AS 28 "Impairment of Assets", impairment loss is not to be recognized for given asset if the related cash generating unit (CGU) is not impaired. In the given question, the related cash generating unit (CGU), which is group of asset to which the damaged machine belongs, is not impaired; as the recoverable amount is more than the carrying amount of group of assets. Hence there is no need to provide for impairment loss on the damaged sachet filling machine.

Q119

Mohan Ltd. gives the following estimates of cash inflows relating to fixed asset on 31.12.2000. The discount rate is 15%.

Year	Cash Flows (Rs. in Lakhs)
2001	2000
2002	3000
2003	3000
2004	4000
2005	2000
Residual Value	500

Fixed asset was purchased on 1.1.98 for Rs. 20,000 lakhs. Useful life was 8 years. Residual value estimated Rs. 500 lakhs at the end of 8 years. Net selling price is Rs. 10,000 lakhs.
Calculate on calendar year:

(a) Carrying amount at the end of 2000

(b) Value in use on 31.12.2000

(c) Recoverable amount on 31.12.2000

(d) Impairment loss to be recognized for the year ended 31.12.2000

(e) Revised carrying amount

(f) Depreciation for the calendar year 2001

(Solution: Value in use: Rs. 9513 lakhs, Carrying amount on 31.12.2000 – Rs. 12687 lakhs, Net selling price as given Rs. 10,000 lakhs, Recoverable amount is higher of 9513 and 10000; impairment loss- Rs. 2687 lakhs and depreciation charge for 2001 = 10000-500/5 = 1900)

Q120

A Ltd. gives following information

Asset	Carrying Amount	Cash generating unit
A	1,00,000	1
B	2,00,000	3
C	3,00,000	2
D	3,50,000	2
E	70,000	1
F	8,00,000	3
G	2,20,000	2
H	4,50,000	1
Goodwill X	90,000	Allocate in ratio 1:1:1
Goodwill Y	60,000	Unallocable
Corporate:		
Asset P	1,50,000	Allocate in ratio 3:2:1
Asset Q	2,00,000	Unallocable

Recoverable Amount of Cash generating Unit: 1 – 6,70,000; 2 – 8,40,000 and 3 – 10,30,000 Recoverable Amount of Entity: Case A – 25,50,000; Case B – 25,40,000. Calculate impairment loss.

Q121

A Ltd. acquired S Ltd. business on 31.03.2001 for Rs. 5000 lakhs. The details of acquisition are as under:

Fair value of identifiable assets 4000 lakhs

Goodwill (to be amortised in 5 years) 1000 lakhs

The anticipated useful life of acquired assets is 8 years. A Ltd. uses straight line method of depreciation with nil residual values is anticipated on 31.03.2003. A Ltd. estimated the significant decline in production due to changed government policies, the net selling price of identifiable asset is not determinable. The cash flow forecast based on recent financial budget

for next 6 years after considering changed govt. policies are as follows, incremental financial cost is 10% which represent current market assessment of the time value of money.

Year	Cash flow	Year	Cash flow
2004	700	2007	500
2005	700	2008	500
2006	700	2009	500

Acquired business is a cash generating unit

Required:-

(a) Value in use

(b) Impairment loss

(c) Revised carrying amount assets on 31.03.2003

(Ans: Impairment loss Rs. 925 (Goodwill – 600 and 325 Other Assets); revised carrying amount Nil & 2674)

Q122

On 31.03.1999 A Ltd. acquired B Ltd. for Rs. 600 lakhs. B Ltd. has three cash generating unit X, Y and Z, net fair values of Rs. 240 lakhs. 160 lakhs and 80 lakhs respectively. A Ltd. recognize goodwill of Rs. 120 lakhs. For the accounting year ended 31.03.2003, X Unit incurred substantial losses and its recoverable amount is estimated to be Rs. 270 lakhs. Carrying amount of different cash generating units are as under:

X	260 Lakhs
Y	240 Lakhs
Z	160 Lakhs
Goodwill	24 Lakhs
Total	**684 Lakhs**

Calculate the impairment loss to be recognized in the financial statement if goodwill can be allocated on reasonable and consistent basis to cash generating unit.

(Answer: Impairment loss – Rs. 2 lakhs (272-270)

Q123

At the end of 2000, enterprise M acquired 100% of enterprise Z for Rs. 3,000 lakhs. Z has 3 cash generating units A, B and C with Net fair values of Rs. 1,200 lakhs, Rs. 800 lakhs and Rs. 400 lakhs respectively. M recognizes goodwill of Rs. 600 lakhs (Rs. 3,000 lakhs less Rs. 2,400 lakhs) that relates to Z.

At the end of 2004, A makes significant losses. Its recoverable amount is estimated to be Rs. 1,350 lakhs. Carrying amounts are detailed below:

A 1300, B 1200, C 800 and Goodwill 120

Case:1 Assume: At the acquisition of Z, the net fair values of A, B and C are considered a reasonable basis for a pro-rata allocation of the goodwill to A, B and C.

Case:2 Assume: Goodwill cannot be allocated on a reasonable and consistent basis and Z recoverable amount is Rs. 3400 lakhs.

(Ans: Case 1 Impairment loss Rs. 10 for Goodwill; Case 2 Impairment loss Rs. 20 for Goodwill)

Q124

A Ltd., which is in business of manufacturing and export of its product. sometimes, back in 2000, the Govt. put the restriction on export of goods exported by A Ltd. Due to that restriction A Ltd. impaired its asset. A Ltd acquired at the end of 1996 Rs. 4000 Lakhs identifiable assets and paid Rs. 6000 lakhs balance is treated as goodwill. The useful life of the identifiable assets are 15 years and depreciated on straight line basis. When Govt. put the restriction at the of 2000, the company recognized the impairment loss by determining the recoverable amount of assets of Rs. 2720 lakhs. In 2002 Govt. lift the restriction imposed on the export and due to this favourable change A Ltd, estimate recoverable amount, which was estimated of Rs. 3420 lakhs.

Required:

A. Calculation and allocation of impairment loss in 2000

B. Reversal of an impairment loss and its allocation as per AS-28 in 2002

Ans. Impairment loss Rs.614; Reversal of Loss Rs.175.

Q125

An enterprise has an asset with a carrying amount of Rs.1,000 lakhs. Its recoverable amount is Rs. 650 lakhs. The tax rate is 30% and the carrying amount of the asset for tax purposes is Rs. 800 lakhs. Impairment losses are not allowable as deduction for tax purposes. Compute the effect of the impairment loss.

Ans.:

	Amount in Rs. (lakhs)
Impairment Loss recognised in the statement of profit and loss	350
Impairment Loss allowed for tax purposes	-
Timing Difference	350
Tax Effect of the above timing difference at 30% (deferred tax asset)	105
Less: Deferred tax liability due to difference in depreciation for accounting purposes and tax purposes [(1,000 - 800) x 30%]	60
Deferred tax asset	45

In accordance with AS 22, Accounting for Taxes on Income, the enterprise can recognize the deferred tax asset subject to the consideration of prudence.

Q126

Acute Ltd is the owner of a CGU (Cash Generating Unit) block of assets whose current carrying cost is Rs. 999 lakhs. The company, after a detailed study by its technical team, has assessed the present recoverable amount of this CGU block of assets at Rs. 555 lakhs. The value of the block of assets as per the Income tax Records is Rs 777 lakhs. The Board of Directors of the company have issued a signed statement confirming that the impairment in the value of the CGU is only a temporary phenomenon which is reversible in subsequent periods and also assuring virtual certainty of taxable incomes in the foreseeable future. You are required to show Deferred Tax workings as per Accounting Standards in force, given the tax rate of 30% plus 10% surcharge thereon. The depreciation rate for tax purposes is 15% & that per books is 13.91 %.

(May 2012)(Answer: DTL Reversed – 81.18 and DTA Created – 73.26)

Solution:-

Q127 (Exam - Nov 18)

A machine was acquired by ABC Ltd. 15 years ago at a cost of Rs 20 crore. Its accumulated depreciation as at 31st March, 2018 was Rs 16.60 crore. Depreciation estimated for the financial year 2018-19 I Rs 1 crore. Estimated Net Selling Price of the machine as on 31st March, 2018 was Rs 1.20 crore, which is expected to decline by 20 per cent by the end of the next financial year.

Its value in use has been computed at Rs 1.40 crore as on 1st April, 2018, which is expected to decrease by 30 per cent by the end of the financial year. Assuming that other conditions of relevant Accounting Standard for applicability of the impairment are satisfied:

(i) What should be the carrying amount of this machine as at 31st March, 2019?

(ii) How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?

(iii) If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be Rs 48 lakh, how would you answer to questions (i) and (ii) above?

(iv) If the value in use was zero and the company was required to incur a cost of Rs 8 lakh to dispose of the plant, what would be your response to questions (i) and (ii) above?

(5 Marks)

Solution:

(a) As per the requirement of the question, the following solution has been drawn on the basis

		(Rs in crore)
(i)	Carrying amount of plant (before impairment) as on 31st March, 2019	2.40
	Carrying amount of plant (after impairment) as on 31st March, 2019	0.98
(ii)	Amount of impairment loss for the financial year ended 31st March, 2019 (2.4 Cr.- 0.98 Cr)	1.42
(iii)	If the plant had been revalued ten years ago	
	Debit to revaluation reserve	0.48
	Amount charged to profit and loss (1.42 - 0.48)	0.94
(iv)	If Value in use was zero	
	Value in use (a)	Nil
	Net selling price (b)	(0.08)
	Recoverable amount [higher of (a) and (b)]	Nil
	Carrying amount (closing book value)	Nil
	Amount of write off (impairment loss) (2.4 Cr - Nil)	2.4
	Entire book value of plant will be written off and charged to profit and loss account.	

Working Notes:

(1) Calculation of Closing Book Value, as at 31st March, 2019

Rs in crore	
Opening book value as on 1.4.2018 Rs20 crore -16.60 crore)	3.40
Less: Depreciation for financial year 2018-2019	(1.00)
Closing book value as on 31.3.2019 (before impairment)	2.40

(2) Calculation of Estimated Net Selling Price on 31st March, 2019

Rs in crore	
Estimated net selling price as on 1.4.2018	1.20
Less: Estimated decrease during the year (20% of Rs 1.20 Cr.)	(0.24)
Estimated net selling price as on 31.3.2019	0.96

(3) Calculation of Estimated Value in Use of Plant on 31st March, 2019

Rs in crore	
Estimated value in use as on 1.4.2018	1.40
Less: Estimated decrease during the year (30% of Rs1.40 Cr.)	(0.42)
Estimated value in use as on 31.3.2019	0.96

(4) Recoverable amount as on 31.3.2019 is equal to higher of Net selling price and value in use

Rs in crore	
Net selling price	0.96
Value in use	0.98
Recoverable amount	0.98
Impairment Loss [Carrying amount – Recoverable amount ie. (2.40 Cr. – 0.98 Cr)]	1.42
Revised carrying amount on 31.3.2019 is equal to Recoverable amount (after impairment)	0.98 Cr.

Note: Since question requires computation of Impairment Loss on 31.3.2019, hence impairment probability on 31.3.2018 has been ignored. However, since there is impairment probability at the beginning of the year as well, one may calculate the carrying amount at the beginning of the year after impairment and then calculate the impairment possibilities at the end of the year. Accordingly the solution will be as follows:

Rs in crore	
Carrying amount before impairment on 1.4.2018 (20 - 16.60)	3.40
Recoverable amount i.e. higher of NSP (1.20 cr) and Value in use (1.40 cr)	1.40
Impairment loss	2.00
Revised carrying amount after impairment as on 1.4.2018	1.40
Less: Depreciation for 2018-2019 (as given in the question)	(1.00)
Carrying amount as on 31.3.2019	0.40
Recoverable amount as on 31.3.2019 (Refer W.N. 2, 3 and 4 above)	0.98
Impairment Loss as on 31.3.2019 (since carrying amount is less than recoverable amount)	NIL

Q128 (RTP – Nov. 18)

M Ltd. has three cash-generating units: A, B and C. Due to adverse changes in the technological environment, M Ltd. conducted impairment tests of each of its cash-generating units. On 31st March, 2018, the carrying amounts of A, B and C are Rs100 lakhs, Rs150 lakhs and Rs200 lakhs respectively.

The operations are conducted from a headquarter. The carrying amount of the headquarter assets is Rs200 lakhs: a headquarter building of Rs150 lakhs and a research centre of Rs50 lakhs. The relative carrying amounts of the cash-generating units are a reasonable indication of the proportion of the head-quarter building devoted to each cash-generating unit. The carrying amount of the research centre cannot be allocated on a reasonable basis to the individual cash-generating units.

Following is the remaining estimated useful life of:

	A	B	C	Head quarter assets
Remaining estimated useful life	10	20	20	20

The headquarter assets are depreciated on a straight-line basis.

The recoverable amount of each cash generating unit is based on its value in use since net selling price for each CGU cannot be calculated. Therefore, Value in use is equal to

	A	B	C	M Ltd. as a whole
Recoverable amount	199	164	271	720*

*The research centre generates additional future cash flows for the enterprise as a whole. Therefore, the sum of the value in use of each individual CGU is less than the value in use of the business as a whole. The additional cash flows are not attributable to the headquarter building.

Calculate and show allocation of impairment loss as per AS 28. Ignore tax effects.

Solution:

1. Identification of Corporate Assets of M Ltd.

Here, the corporate assets are the headquarter building and the research centre.

For corporate building

Since, the carrying amount of the headquarter building can be allocated on a reasonable and consistent basis to the cash-generating units under review. Therefore, only a 'bottom-up' test is necessary.

For research centre

Since the carrying amount of the research centre cannot be allocated on a reasonable and consistent basis to the individual CGU under review. Therefore, a 'top-down' test will be applied **in addition to** the 'bottom-up' test.

2. Allocation of Corporate Assets

Since the estimated remaining useful life of A's CGU is 10 years, whereas the estimated remaining useful lives of B and C's CGU are 20 years, the carrying amount of the headquarter building is allocated to the carrying amount of each individual cash-generating unit on weight basis.

3. Calculation of a weighted allocation of the carrying amount of the headquarter building

(Amount in Rs lakhs)

On 31st March, 2018	A	B	C	Total
Carrying amount (A)	100	150	200	450
Useful life	10 years	20 years	20 years	
Weighting based on useful life	1	2	2	
Carrying amount after weighting	100	300	400	800
Pro-rata allocation of the building	12.5% (100/800)	37.5% (300/800)	50% (400/800)	100%
Allocation of the carrying amount of the building (based on pro-rata above) (B)	18.75	56.25	75	150
Carrying amount (after allocation of the building)	118.75	206.25	275	600

4. Calculation of Impairment Losses

(i) Application of 'bottom-up' test

(Amount in Rslakhs)

31st March, 2018	A	B	C
Carrying amount (after allocation of the building) (Refer Point 3 above)	118.75	206.25	275
Recoverable amount (given in the question)	199	164	271
Impairment loss	0	(42)	(4)

(ii) Allocation of the impairment losses for cash-generating units B and C

(Amount in Rs lakhs)

Cash-generating unit	B	C
To headquarter building	(12) (42*56/206)	(1) (4*75/275)
To assets in cash-generating unit	(30) (42*150/206)	(3) (4*200/275)
	(42)	(4)

Since the research centre could not be allocated on a reasonable and consistent basis to A, B and C's CGU, M Ltd. compares the carrying amount of the smallest CGU to which the carrying amount of the research centre can be allocated (i.e., M as a whole) to its recoverable amount, in accordance with the 'top-down' test.

(iii) Application of the 'top-down' test

(Amount in Rs lakhs)

31st March, 2018	A	B	C	Building	Research centre	M Ltd.
Carrying amount	100	150	200	150	50	650
Impairment loss arising from the 'bottom-up' test	-	(30)	(3)	(13)	-	(46)
Carrying amount after the 'bottom-up' test	100	120	197	137	50	604
Recoverable amount						720

Since recoverable amount is more than the carrying amount of M Ltd., no additional impairment loss has been resulted from the application of the 'top-down' test. Only an impairment loss of Rs46 lakhs will be recognized as a result of the application of the 'bottom-up' test.

Q129. (RTP - MAY 18)

Himalaya Ltd. which is in a business of manufacturing and export of its product. Sometimes, back in 20X4, the Government put restriction on export of goods exported by Himalaya Ltd. and due to that restriction Himalaya Ltd. impaired its assets. Himalaya Ltd. acquired identifiable assets worth of Rs 4,000 lakhs for Rs 6,000 lakh at the end of the year 20X0. The difference is treated as goodwill. The useful life of identifiable assets is 15 years and depreciated on straight line basis. When Government put the restriction at the end of 20X4, the company recognised the impairment loss by determining the recoverable amount of assets for Rs 2,720 lakh. In 20X6 Government lifted the restriction imposed on the export and due to this favourable change, Himalaya Ltd. re-estimate recoverable amount, which was estimated at Rs 3,420 lakh.
Required:

(i) Calculation and allocation of impairment loss in 20X4.

(ii) Reversal of impairment loss and its allocation as per AS 28 in 20X6.

Solution:

(i) Calculation and allocation of impairment loss in 20X4 (Amount in ` lakhs)

	Goodwill	Identifiable assets	Total
Historical cost	2,000	4,000	6,000
Accumulated depreciation/amortisation (4 yrs.)	(1,600)	(1,067)	(2,667)
Carrying amount before impairment	400	2,933	3,333
Impairment loss*	(400)	(213)	(613)
Carrying amount after impairment loss	0	2,720	2,720

* **Notes:**

(1) As per para 87 of AS 28, an impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

(a) first, to goodwill allocated to the cash-generating unit (if any); and

(b) then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.

Hence, first goodwill is impaired at full value and then identifiable assets are impaired to arrive at recoverable value.

(2) Since the goodwill has arisen on acquisition of assets, AS 14 comes into the picture. As per para 19 of AS 14, goodwill shall amortise over a period not exceeding five years unless a somewhat longer period can be justified. Therefore, the amortization period of goodwill is considered as 5 years.

Student Notes:-

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