

IND AS 36**Para Added**

Non-controlling interests – the impact on goodwill impairment testing

The amount of goodwill recorded by an entity when it acquires a controlling stake in a subsidiary that is less than 100% of its equity depends on which of the two following methods have been used to calculate it. Under Ind AS 103 'Business Combinations' an entity has a choice between two methods:

- Goodwill attributable to the non-controlling interests (NCI) is not recognised in the parent's consolidated financial statements as the non-controlling interest is stated at its proportion of the net fair value of the net identifiable assets of the acquiree.
- The NCI is measured at its acquisition-date fair value, which means that its share of goodwill will also be recognised.

Under method (i) above the carrying amount of that CGU comprises:

- both the parent's interest and the non-controlling interest in the identifiable net assets of the CGU; and
- the parent's interest in goodwill.

But part of the recoverable amount of the CGU determined in accordance with Ind AS 36 is attributable to the non-controlling interest in goodwill.

Ind AS 103 allows both measurement methods. The choice of method is to be made for each business combination, rather than being a policy choice, and could have a significant effect on the amount recognized for goodwill.

The Standard states that not all of the goodwill arising will necessarily be allocated to a CGU or group of CGUs which includes the subsidiary with NCI.

If an entity measures NCI as its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value, goodwill attributable to NCI is included in the recoverable amount of the related cash-generating unit but is not recognised in the parent's consolidated financial statements. As a consequence, an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to NCI. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash generating unit is impaired.

Below is the guidance given on the allocation of impairment losses:

- If a subsidiary, or part of a subsidiary, with NCI is itself a CGU, the impairment loss is allocated between the parent and NCI on the same basis as that on which profit or loss is allocated.
- If it is part of a larger CGU, goodwill impairment losses are allocated to the parts of the CGU that have a NCI and the parts that do not on the following basis:
 1. to the extent that the impairment relates to goodwill in the CGU, the relative carrying values of the goodwill of the parts before the impairment; and

2. to the extent that the impairment relates to identifiable assets in the CGU, the relative carrying values of these assets before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro-rata on the basis of the carrying amount of each asset in the part.

In those parts that have NCI, the impairment loss is allocated between the parent and NCI on the same basis as that on which profit or loss is allocated.

If an impairment loss attributable to NCI relates to goodwill that is not recognised in the parent's consolidated financial statements, that impairment is not recognised as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the parent is recognised as a goodwill impairment loss.

Question 89

A Ltd acquires 80% shares of a subsidiary B Ltd. for Rs. 3,200 thousand. At the date of acquisition, B Ltd.'s identifiable net assets is Rs. 3,000 thousand. A elects to measure NCI at proportionate share of net identifiable assets. It recognizes

	<i>Rs. in thousand</i>
Purchase Consideration	3,200
NCI (3,000 x 20%)	<u>600</u>
	3,800
Less: Net Assets	<u>(3,000)</u>
Goodwill	<u>800</u>

At the end of next financial year, B Ltd.'s carrying amount is reduced to Rs. 2,700 thousand (excluding goodwill).

Recoverable amount of B Ltd.'s assets is

Case (i) Rs. 2,000 thousand,

Case (ii) Rs. 2,800 thousand

Calculate impairment loss allocable to Parent and NCI in both the cases

Ans: Case (i) Rs. in thousand

Particulars	Goodwill	Other Asset	Total
Carrying amount	800	2,700	3,500
Unrecognised NCI (notional) [(800 / 80%) x 20%]	<u>200</u>	-	<u>200</u>
Notional Total	<u>1,000</u>	<u>2,700</u>	3,700
Recoverable amount	-	-	<u>2,000</u>
Total Impairment loss	-	-	(1,700)
Impairment loss recognised in CFS	<u>(800)</u>	<u>(700)</u>	(1,500)
Carrying amount after impairment	-	<u>2,000</u>	2,000

Impairment loss on:	Parent	NCI
Goodwill	(800)	-

Other assets	<u>(560)</u>	<u>(140)</u>
Total	<u>(1,360)</u>	<u>(140)</u>

Case (ii)

Particulars	Goodwill	Other Asset	Total
Carrying amount	800	2,700	3,500
Unrecognised NCI (notional) (800 / 80% x 20%)	<u>200</u>	<u>-</u>	<u>200</u>
Notional Total	<u>1,000</u>	<u>2,700</u>	<u>3,700</u>
Recoverable amount	-	-	<u>2,800</u>
Total Impairment loss	-	-	<u>(900)</u>
Impairment loss recognised in CFS (900 x 80%)	(720)	-	<u>(720)</u>
Carrying amount after impairment (800 – 720)	80	2,700	2,780

Impairment loss on:	Parent	NCI
Goodwill	(720)	-
Other assets	<u>-</u>	<u>-</u>
Total	<u>(720)</u>	<u>-</u>

It is to be noted that since an entity measures NCI at its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value, goodwill attributable to NCI is not recognised in the parent's consolidated financial statements and so the impairment loss on such goodwill not recognised.

Question 90

Entity A acquires Entity B for Rs. 50 million, of which Rs. 35 million is the fair value of the identifiable assets acquired and liabilities assumed. The acquisition of B Ltd. is to be integrated into two of Entity A's CGUs with the net assets being allocated as follows:

Rs. in million

	CGU 1	CGU 2	Total
Fair value of acquired identifiable tangible and intangible assets	25	10	35

In addition to the net assets acquired that are assigned to CGU 2, the acquiring entity expects CGU 2 to benefit from certain synergies related to the acquisition (e.g. CGU 2 is expected to realise higher sales of its products because of access to the acquired entity's distribution channels). There is no synergistic goodwill attributable to other CGUs.

Entity A allocated the purchase consideration of the acquired business to CGU 1 and CGU 2 as Rs. 33 million and Rs. 17 million respectively.

Determine the allocation of goodwill to each CGU?

Ans: If goodwill is allocated to the CGUs based on the difference between the purchase consideration and the fair value of net assets acquired ie direct method, the allocation would be as follows:(All figures are Rs. in million, unless otherwise specified)

	CGU 1	CGU 2	Total
Allocation of Purchase consideration	33	17	50
Less: Acquired identifiable tangible and intangible assets	(25)	(10)	(35)
Goodwill assigned to CGUs	8	7	15

Question 91

On 1 January Year 1, Entity Q purchased a machine costing Rs. 2,40,000 with an estimated useful life of 20 years and an estimated zero residual value. Depreciation is computed on straight-line basis. The asset had been re-valued on 1 January Year 3 to Rs. 2,50,000, but with no change in useful life at that date. On 1 January Year 4 an impairment review showed the machine's recoverable amount to be Rs. 1,00,000 and its estimated remaining useful life to be 10 years.

Calculate:

- The carrying amount of the machine on 31 December Year 2 and the revaluation surplus arising on 1 January Year 3.
- The carrying amount of the machine on 31 December Year 3 (immediately before the impairment).
- The impairment loss recognised in the year to 31 December Year 4 and its treatment thereon
- The depreciation charge in the year to 31 December Year 4.

Note: During the course of utilization of machine, the company did not opt to transfer part of the revaluation surplus to retained earnings

Ans:

- Calculation of Carrying amount of machine at the end of Year 2

	Rs.
Cost of machine	2,40,000
Accumulated depreciation for 2 years [2 years × (2,40,000 ÷ 20)]	(24,000)
Carrying amount of the machine at the end of Year 2	2,16,000

- Calculation of carrying amount of the machine on 31 December Year 3

	Rs.
Carrying amount at the beginning of Year 3	2,16,000
Revaluation done at the beginning of Year 3	2,50,000
Revaluation surplus	34,000

(c) Calculation of Impairment loss at the end of Year 4

When machine is revalued on 1 January Year 3, depreciation is charged on the revalued amount over its remaining expected useful life.

Valuation at 1 January (re-valued amount)	2,50,000
Accumulated depreciation in Year 3 (2,50,000 / 18)	(13,889)
Carrying amount of the asset at the end of Year 3	2,36,111
On 1 January Year 4, recoverable amount of the machine	1,00,000
Impairment loss (2,36,111 – 1,00,000)	1,36,111

An impairment loss of Rs. 34,000 will be taken to other comprehensive income (reducing the revaluation surplus for the asset to zero)

The remaining impairment loss of Rs. 1,02,111 (1,36,111 – 34,000) is recognised in the Statement of Profit and Loss for the Year 4.

(d) Calculation of depreciation charge in the Year 4

Carrying value of the machine at the beginning of Year 4	Rs. 1,00,000
Estimated remaining useful life	10 years
Depreciation charge is (Rs. 1,00,000 / 10 years)	Rs. 10,000