AS 28 : Impairment of Assets

Scope : Not applicable to assets covered by AS 2, AS 7, AS 13 & AS 22.
Applicable to PPE & Intangible Assets.

Impairment Loss

Meaning

Impairment Loss = Carrying Amount − Recoverable Amount

- Carrying Amount → Book value after Depreciation & Amortisation at year end (This is after Revaluation)
- Recoverable Amount → Higher of Net selling Price (1) or Value in Use (2)

(1) **Net selling Price** =
Expected Sale Price of Asset − Estimated selling Expenses E.g. Commission (Excluding : Tax & Finance costs)

(2) **Value in use** =
Present value of Net cash Inflows from use & its residual value

Net cash Inflows = Gross Inflows − Outflows to generate Inflows (E.g. Repairs)

Cash flows should be taken for maximum 5 years, unless justified

Accounting Treatment

Journal Entry

1) Impairment Loss A/c - Dr
   To Accumulated Impairment Loss A/c

2) Revaluation Reserve A/c - Dr (To the extent of Balance available)
   Profit & Loss A/c - Dr
   To Impairment Loss A/c

Revised Carrying Amount =
Carrying Amount before Impairment Loss − Impairment Loss

* Depreciation of future periods will get reduced due to Impairment Loss.

Balance sheet

Asset (cost)	xx
− Accumulated Depreciation	(xx)
− Accumulated Impairment Loss	(xx)
	xx

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Note: If Recoverable Amount > Carrying Amount, ignore the difference & asset shown at same book value.

→ Review useful life, residual value or depreciation method as per AS 10.

Indicators of Impairment Loss

External

- Low market capitalisation
- Market Price of Asset has declined substantially
- Unfavourable market conditions against entity in regard to demand, technology, Govt. policies, etc.
- Market Interest rates have increased substantially

Internal

- Poor Economic Performance by Asset
- Physical Damage to Asset
- Company has plans of Restructuring or Discontinuation

Reversal of Impairment Loss

If indicators due to which Impairment loss recognised earlier no longer exist, then Impairment loss to be reversed.

Calculation of Maximum Reversal of Impairment Loss

Carrying Amount of Asset Net of Depreciation (If No Impairment)	xx
Less: Carrying Amount of Asset Net of Depreciation (After Impairment)	(xx)
	xx

Note: Goodwill written off can be reversed only if certain conditions are met.

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Cash Generating Unit (CGU)

* Smallest identifiable group of assets which are capable of generating independent cash inflows.
* If asset is capable of generating cash flows on independent basis, then such single asset is CGU, else identify the lowest aggregation of assets that generate independent cash inflows.

Carrying Amount of CGU :

Carrying Amount of all assets under CGU – Liability only if necessary to be considered (E.g. Provision for Decommissioning)

Impairment Loss for CGU :

* First to Goodwill allocated to CGU &
* Then to other assets in ratio of their carrying amounts

Note : If CGU is not impaired, then individual asset which is part of CGU will not be impaired even its Net selling Price < Carrying Amount.

Goodwill : Does not generate cash flows independently from other assets or group of assets therefore recoverable amount cannot be determined.

Case 1 : If Goodwill can be allocated on reasonable & consistent basis : Apply Bottom up Test only.

Case 2 : If Goodwill cannot be allocated on reasonable & consistent basis : Apply Bottom up Test & Top Down Test

Corporate Assets : Administrative assets like HO Building, EDP Equipment, Research unit, etc.
Same Treatment Like Goodwill.

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AS27: Financial Reporting of Interest in Joint Ventures

Definition of Joint Venture:
- → Contractual Arrangement
- → Between 2 or more parties* for Economic Activity
- → which is subject to Joint Control
  - Joint → Sharing
  - Control → Power to govern Financial & operating policies so as to obtain benefits.

* Parties to joint venture are called venturers.

Forms/Types of Joint Ventures

Jointly controlled Operations (JCO)

(E.g. Construction Activity)

- * No separate entity
- * Use their own Assets
- * No separate Books of J.V. maintained
  (Draft Cons. P&L prepared to ascertain Profit/Loss)
- * Maintain own books & record only his own transactions.
- * Venturers met expenses of J.V. business from their funds
- * Any Income earned from J.V. is shared by venturers as per contract

Jointly controlled Assets (JCA)

(E.g. Construction of Gas pipeline by Bharat & Hindustan Petroleum)

- * No separate entity
- * Common control over joint assets
- * No separate Books of J.V.
  (Draft Cons. B/S & P&L A/c prepared)
- * Venturer shows only their share of asset & total income earned & expenses incurred by them
- * Expenses on jointly held assets shared by venturers as per contract

Jointly controlled Entities (JCE)

(E.g. X Ltd. + Y Ltd. = Z Ltd.)

- * Separate entity is formed
- * Entity prepares its own Books of Accounts & Financial Statements.

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Jointly Controlled Entity (JCE)

Entity (Firm, Company, etc.)

- Own Books of Accounts as per Double Entry system
- Own Financial Statements in normal manner (B/S, P&L, etc.)

Partner, Venturer etc.

Separate Financial statements

↓

Apply AS 13

Investment in J.V. A/c - Dr
To Bank A/c

Consolidated Financial statements

↓

Apply AS 27 (Proportionate Consolidation Method)

Assets, Liabilities, Expense, Income shown on line by line basis for proportionate amount (venturer share)

Share in Asset A/c - Dr
Share in Expense A/c - Dr
To Share in Income A/c
To Share in Liability A/c
To Investment in J.V. A/c

Cases where Proportionate Consolidation Method is not followed

a) Investment is intended to be temporary OR

b) Joint venture operates under Long Term restrictions which significantly restricts transfer of funds to venturer.

Discontinuance of Proportionate Consolidation Method

a) When venturers ceases to have joint control in Joint venture OR

b) Joint venture operates under Long Term restrictions which significantly restricts transfer of funds to venturer.

After discontinuance of above method → If stake is

- > 50% — Apply AS 21
- 20% to 50% — Apply AS 23
- < 20% — Apply AS 13

Thereafter carrying Amount of Investment is regarded as cost

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Transactions between Venturer & Joint venture

When venturer sells asset to Joint venture, venturer should recognise only that portion of gain/loss which is attributable to interests of other venturers.

- Gain or loss can be recorded on share of assets sold to other venturer
- Do not record gain or loss on share of assets transferred to itself.

Gain/Loss = Fair value of what we get vs Book value of what we give

Note: If decline in market prices/NRV or Impairment Loss have been reported, then loss can be recorded on own share of asset also.

Example: A Ltd. & B Ltd. established a separate entity J Ltd. (50% & 50% ownership interest)

A Ltd. contributed Property to J Ltd. Fair value = 110 Carrying Amt. = 100

B Ltd. contributed Equipment to J Ltd. Fair value = 120 Carrying Amt. = 80

A Ltd. Books (CFS)

Equipment (Received) A/c - Dr	60	FV (120 x 50%)
To Property (given up)	50	(100 x 50%) CA
To Gain (P&L)	10	

B Ltd. Books (CFS)

Property (Received) A/c - Dr	55	FV (110 x 50%)
To Equipment (given up)	40	CA (80 x 50%)
To Gain (P&L)	15	

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