श्री गणेशाय नमः

श्री सरस्वत्यै नमः

गुरुभ्यो नमः

IND AS 36

Impairment of Assets.

#1 Introduction :- Decline in the Value of assets since its benefit generating capacity decreases or reduces.

B/S.

PPE 500

R.A. 350.

∴ IL = 150

#2 Scope :-

Covered	Not Covered.
i) PPE (incl. Corporate assets)	i) Inventory
ii) I.T.A.	ii) Plan assets.
iii) Investment in subsidiary	iii) D.T.A.
iv) goodwill	iv) Bio Anet.

v) Investment property

v) NCA HFS.

vi) Financial Assets.

#3 objective.

Any Aset should not be carried in BIS above its Recoverable amount.

#4 Measurement & Recognition :-

we need to follow 5 steps.

Step1 :- check whether there are indicators of impairement or not.

External

a) Decrease in M.P. of aset

b) Δ in

- political
- technical
- legal environment

due to which value of

Internal.

a) aset is damaged

b) Δ in usage pattern

c) decrease in expected cashflow

asset decreases

c) increase in market R.O. int.

d) decrease in market Capitalisation.

∴ decrease in Net assets.

Step2 :- if there are indicators then Do impairement test.

↓

Check if CA > R.A. (means test is +ve)

then Book Imp. loss.

Step3 :- Calculation of Impairement loss

C.A. as on Date of impairement. (note-1)		xxx
less: Recoverable amount as on Date of imp. (note 2)		xxx
I. loss.		xxx

Note1 :- C.A. as on Date of impairement.

↓

Original Cost	xxx

+/- Rev gain/loss upto d.o.I. xxx
- Dep upto D.O.I. xxx
C.A. as on D.O.I

Note 2 :- Recoverable amount as on D.O.Imp

higher of

FVLCD (Fair Value Less Cost of disposal) or Value in use. (VIU)

FV
↓
it means F.V. @ which asset can be sold in active market as per IND AS 113.

Cost to dispose.
- includes
  - i) Commission
  - ii) Brokerage.
  - iii) Transaction cost.
  - iv) Transport cost.
  - v) Selling exp.
  - vi) legal fees
  - vii) packaging cost.
- exclude.
  - i) I. Tax
  - ii) Finance cost
  - iii) Valn fees.

P.V. of future cfs xxx
+ P.V. of salvage xx
VIU xxx

Note :-
a) cfs are expected/budgeted on date of impairement.
b) cfs does not include cfs. expected from future improvements not yet committed.
c) if asset is situated o/s India, then
↳ consider cfs in

if FVLCO is not available

then RA = VIU

foreign currency

↳ Consider foreign country disc. Rate.

↳ Calculate VIU in foreign currency.

↓

then convert it

↓

VIU in INR using Exch. Rates as on D.O.I. testing

d) If prob. factor is given then

VIU = cfs × pf × pvf.

↓

if VIU is not available.

↓

Then we can say that R.A. of asset cannot be determined.

** Any Anet can be impaired individually only if it generates cashflows.

** if not able to generate cfs.

individually then Impairement of such asset will be done in CGUs.

Step 4 Recognition of I.L.

a) I.L. is generally recognised in SOPIL under the dep./ amortisation.

b) However if there is R.R. (OCI - N.R.) related to impaired asset then

first. I.L. is recognised in (OCI-NR) i.e. by Rev. surplus upto balance existing in it.

second if any bal. then by SOPIL.

c) Journal

1) I.L. Dr xx

To Asset/Prov of I.L. xx

2) R.R. Dr

PIL Dr (Bf)

To I.L. xx

Eg 1 ⇒

PIM.

O.C.	100
– Dep(3).	(30)
C.A.	70
R.A.	110
– Dep	(11)
C.A.	99
R.A.	39
I.Loss	60

Dep p.a = 10

→ RR = 40

Option I

(charge excess Dep with R.R)

i) R.R. Dr 1
PIL Dr 10
To PPE 11

Bal of RR = 39

Option II

(charge Dep. directly with PIL)

PIL Dr 11
To PPE 11

Bal. of RR = 40

i) IL Dr 60
To P.F.I.L. 60

ii) R.R. Dr 39
PIL Dr 21
To I.L. 60

i) IL Dr 60
To P.F.I.L. 60

ii) R.R. Dr 40
PIL Dr 20
To I.L. 60

Steps – Revised C.A. after impairement

C.A. before Imp. xxx
– I.Loss (xx)
Rev. C.A. of asset xxx

Depreciation should be charged thereafter on Revised C.A.

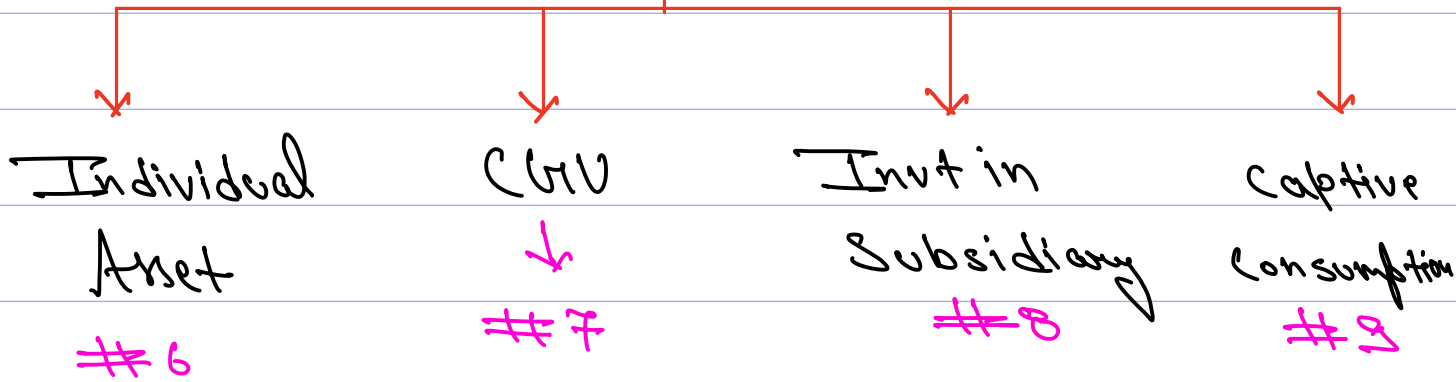
Note :– when to do Impairement Test.

- Annually → for
- & when indicators exist

↳ goodwill
↳ I.T.A. with infinite life
↳ I.T.A. out of use.

MENTORING
HARSHIT DWIVEDI
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

#5 Overview of standard



#6 Individual Asset / Cash generating Asset.

Question# 1

X LTD purchased PPE for RS. 1 lac on 1-4-23, its useful life is 10 years on 31-3-25, x ltd estimated FVLCD as RS. 65000 and VIU RS. 72000

Soln :- Step 1 Impairement test

a) C.A. on 31-3-25

O.C. as on 1-4-23	100000	
– Dep for 2 years $\left(\frac{100000}{10} \times 2\right)$	(20000)	80000

b) R.A. on 31-3-25

i) FVLCD	65000

ii) VIU ₹2000

higher of i) & ii) ₹2000

c) ∵ C.A. of PPE > R.A. of PPE

∴ I.L. is there

Step2 I.L.

C.A.	80000
R.A.	72000
I.L.	8000

Step3 Journal

a) I.L. Dr 8000

To PPE 8000

b) P/L Dr 8000

To I.L. 8000

Step4 Revised C.A.

C.A. before I.L.	80000
– I. Loss	(8000)
Rev. C.A.	72000

Subsequent Dep = $\frac{₹2000}{8}$ = ₹ 9000

Question# 2 ILL – 1 ICAI STUDY MATERIAL

Carrying Amount of the building in the books of X limited on 31.3.2001 is ₹ 300 lacs. As on that date, value in use is ₹ 250 lacs and its fair value less cost of disposal is ₹ 238 lacs.
Show the treatment of impairment loss
Will the treatment change if revaluation reserve is standing in the books at ₹ 40 lacs?

Soln :-

Step1 C.A on 31-3-2001 300 lacs.

Step2 R.A. on 31-3-2001

a) FVLCD 238 lacs.

b) VIU 250 lacs.

higher of a) & b) 250 lacs.

Step3 I.L.

C.A.	300
R.A	250
I.L.	50 lacs.

Step 4 Journal

w/o R.R.

i) I.L. Dr 50
To PPE 50

ii) PIL Dr 50
To I.L. 50

with R.R.

i) I.L. Dr 50
To PPE 50

ii) R.R. Dr 40
PIL Dr 10

To I.L. 50

Question# 4 **ILL - 12 ICAI STUDY MATERIAL**

Cost of asset is ₹ 56 lacs with useful life of 10 years. Upward Revaluation done last year of ₹ 14 lacs. Carrying amount at the beginning of the year is ₹ 27.3 lacs and recoverable amount was ₹ 12 lacs with life remaining 3 years.

Calculate

(a) Impairment Loss

(b) Depreciation for current year

(c) Show the treatment of Impairment loss

Soln :- ₹ in lacs.

Step1 C.A. 27.3

Step2 R.A. 12

Step3 I.L.

C.A	27.3
R.A.	12
	15.3

Step 4 Journal

1) I.L. Dr 15.3

To provision of IL/PPE 15.3

2) R.R. Dr 14

P/L Dr 1.3

To I.L. 15.3

Step5 Revised C.A.

C.A. 27.3

-I.L. 15.3

R.C.A. 12

Dep. of 8th yr. = 12/3 = 4 lacs.

Question# 5 **ILL – 3 ICAI STUDY MATERIAL**

Mars ltd gives you the following information relating to PPE on 31.3.2004

a. PPE was purchased on 01.04.01 for ₹ 20,000 lacs with Useful life of 8 years and with salvage value ₹ 500 lacs
b. Details of cash flows are as under

2004-05	2005-06	2006-07	2007-08	2008-09
2000 LACS	3000 LACS	3000 LACS	4000 LACS	2000 LACS

c. Discounting rate is 15%
d. Fair value less cost to disposal is ₹ 10,000 lacs.

Calculate impairment loss and revised carrying amount as on 31.03.04

Soln:-

Particulars	₹ in lacs	₹ in Lacs
1) C.A.	20000	
- Dep $\left(\frac{2000-500}{8} \times 3\right)$	(7312.5)	12687.5
2) R.A.		
higher of		
a) FVLCD		10000
b) VIU		

year	CFs	PV@15%	P.V
04-05	2000	0.869	

05-06	3000	0.756		
06-07	3000	0.657		
07-08	4000	0.572		
08-09	2000	0.497	9510	10000
			I.L.	2687.5

Revised C.A. ⇒

CA	12687.5
− IL	(2687.5)
Rev. C.A.	10000

$$Dep = \frac{10000 - 500}{5} = 1900$$

eg-2 :-

CA = 100

R.A.

↑ i) VIU 0

ii) FVLCD (8) 0

I.L. 100

option 1

Classify it as NCA HFS under IND AS 105

option 2

As per IND AS 16, PPE derecog.

Is book I.L. as diff. b/w C.A & R.A.

- give asset of ₹ 100 and recognise ₹ 8 as expense in P/L when incurred.

Question# 6 **NOV – 18 EXAM**

A machine was acquired by ABC Ltd. 15 years ago at a cost of ₹ 20 crores. Its accumulated depreciation as at 31st March, 2018 was ₹ 16.60 crores. Depreciation estimated for the financial year 2018 – 2019 is ₹ 1 crores. Estimated Net Selling Price of the machine as on 31st March, 2018 was ₹ 1.20 crores 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 ₹ 1.40 crores as on 1st April, 2018 which is expected to decrease by 30 per cent by end of the financial year. Assuming that order conditions of relevant Ind AS for applicability of the impairment are satisfied

1. What should be the carrying amount of this machine as at 31st March, 2019?
2. How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?
3. If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 48 lakhs, how would you answer to questions (i) and (ii) above?
4. If the value in use was zero and the company was required to incur a cost of ₹ 8 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above?

(Assuming no adjustment for impairment to be done for 2017- 18)

(₹ in crs)

Soln :- i) C.A. as on 31-3-2019

Original Cost	20
- Dep. (Acc.)	16.60
C.A. on 1-4-18	3.4
- Dep. (c.y.)	(1)
	2.40

ii) I.L.

C.A. 2.40

R.A.

i) FVLCD (1.20 - 20%) 0.96

ii) VIU (1.40 - 30%) 0.98

higher of i) & ii) is R.A. 0.98

I.L. 1.42

iii) Arcing

W/o R.R.	With R.R.
1) I.L. Dr 1.42 To PPE 1.42	1) I.L. Dr 1.42 To PPE 1.42
2) PIL Dr 1.42 To I.L. 1.42	2) R.R. Dr 0.48, PIL Dr 0.94 To I.L. 1.42

iv) Cost to dispose = 8 Lakhs, VIU = 0, FV = 0

Calc of I.L.

i) C.A. 2.40

ii) R.A.

a) VIU 0

b) FVLCD (8)

higher of a) & b) 0

I.L. 2.40

Option 1

↓

I.L. under IND AS 105

⇒ 2.40

Option 2

↓

Under IND AS 16 Derecognise PPE of 2.40 Cr & book exp. of 8 Lac in P/L as incurred.

Question# 7 **ILL – 7 ICAI STUDY MATERIAL**

On 31.3.2001 XYZ limited makes following estimate of cashflows for one of its asset located in USA

YEAR	01-02	02-03	03-04
CASHFLOWS	$80	$100	$20

Discounting rate in India is 15% and in USA is 10%

Exchange rate as on 31.3.01 is ₹ 45 / $

Expected exchange rate on

31.03.02	31.03.03	31.03.04
₹ 48 / $	₹ 51 / $	₹ 55 / $

Calculate Value in Use as on 31.3.2001

Soln:- Calc of VIU in $

year	cfs	Dis. @ 10%	PV ($)
01-02	80	0.909	73
02-03	100	0.826	83
03-04	20	0.751	15

171 $

∴ VIU in INR on 31-3-01 = 171 $
× ₹ 45
= ₹ 695

Question# 9 — ICAI STUDY MATERIAL

From the following details

YEAR	CASHFLOWS	PROBABILITY	DIS RATE
1.	1,000	10%	5%
2.	1,000	60%	5.25%
3.	1,000	30%	5.5%

TYK Q.9.

Calculate Value in Use

Soln :-

Year	CFs.	prob.	PVf	PVfact.	P.V.
1	1000	10%	5%	0.952	95.2
2	1000	60%	5.25	0.903	541.8
3	1000	30%	5.5%	0.852	255.6
				VIU	893

Question# 10 — ICAI STUDY MATERIAL

East ltd. (East) owns a machine used in the manufacture of steering wheels, which are sold directly to major car manufacturers

1. The machine was purchased on 1st April, 2001 at a cost of ₹ 5,00,000 through a vendor financing arrangement on which interest is being charged at the rate of 10% per annum.
2. During the year ended 31st March, 2003, East sold 10,000 steering wheels at a selling price of ₹ 190 per wheel.
3. The most recent financial budget approved by East's management, covering the period 1st April, 2003 – 31st March, 2008, including that the company expects to sell each steering wheel for ₹ 200 during 2003-2004, the price rising in later years in line with a forecast inflation of 3 percent per annum.
4. During the year ended 31st march, 2004, East expects to sell 10,000 steering wheels. The number is forecast to increase by 5 per cent each year until, 31st march, 2008.
5. East estimates that each steering wheel cost ₹ 160 to manufacture, which includes ₹ 110 variable costs, ₹30 share of fixed overheads and ₹ 20 transport costs
6. Cost are expected to rise by 1% during 2004-05 and then by 2% per annum until 31st March, 2008
7. During 2005-06, the machine will be subject to regular maintenance costing ₹ 50,000.
8. In 2003-04, East expects to invest in new technology costing ₹ 1,00,000. This technology will reduce the variable cost of manufacturing each steering wheel from ₹ 110 to ₹ 100

and share of fixed overheads from ₹ 30 to ₹ 15 (subject to availability of technology, which is still under development)

9. East is depreciating the machine using the straight line method over the machine's 10 year estimated useful life. The current estimate (based on similar assets that have reached the end of their useful lives) of the disposal proceeds from selling the machine is ₹ 80,000 net of disposal costs. East expects to dispose of the machine at the end of March, 2008.
10. East has determined a pre-tax discount rate of 8%, which reflects the market's assessment of the time value of money and the risk associated with the asset.

Assume tax rate is 30%

What is the value in use of the machine in accordance with Ind AS 36.

Soln:- ① our objective is to calculate VIU based on budget approved by mgmt for 1-4-03 to 31-3-08 i.e for 5 years. ∴ Ignore all adjustments that are not useful for calculation of VIU.

Cashflow means Net cash flow for years 03-04 to 07 & 08.

2) Analysis of statements.

ignore

i) Since adj is related to cost 01-02.

ii) Since related to sales of 02-03.

8) ∴ Contingent event

Used

③ SP of 03-04 = ₹ 200 & increase 3% p.a.

④ Sales of 03-04 = 10000 units & exp. to incr. by 5% p.a.

⑤ & ⑥ C.P.U. of 03-04 = ₹ 160 which is incr. by 1% in 04 & 05

& 2% thereafter.

(7) Maintenance cost = 5000 in 05-06

(9) Salvage value = 8000

(10) Dis. rate = 8%

3) Statement showing Calculation of Cash flows.

Particulars	03-04	04-05	05-06	06-07	07-08
i) Qty sold (incr. by 5% p.a.)	10000	10500	11025	11576	12155
ii) S.p.p.u. (inc. by 3%)	200	206	212	219	225
iii) C.p.u. (inc. by 1% in 04-05 & 2% thereafter)	160	162	165	168	171
iv) N.S.P. (ii − iii)	40	44	47	51	54
v) Misc. cash flows	—	—	(5000)	—	80000
Net cash flows (1×4)+5	400000	462000	468175	590376	736370

4) Calculation of VIU

year	Cash flows	PV@8%	PV
03-04	400000	0.926	

04-05	462000	0.857
05-06	468175	0.794
06-07	590376	0.735
07-08	736370	0.681

Value in use 2073170

Reversal of I.L :-

1) I.L. recognised on an asset in earlier years can be reversed, if indicators have also reversed. i.e. its C.A < R.A.

2) Maximum amount upto which reversal of I.L. is allowed ⇒ Reverse it upto original C.A. of asset on date of reversal., had there been No I.L. earlier.

3) eg 4 ⇒ a) C.A. 10
b) R.A. 7
I.L. 3.

New Revised C.A. = ₹10 − 3 ⇒ ₹7.

After few years C.A ⇒ 7 − 2 (Dep) ⇒ ₹5.
(Say ₹2.)

Original C.A. ⇒ ₹10 − ₹3 (Dep)
(Say ₹3.)

⇒ 7

Situation 1
R.A. = 6
means lower than 7.
hence rev. of I.L. = 6 − 5.
⇒ ₹1 is allowed

Situation 2
R.A. = 11
means greater than 7 hence I.L. Reversal = 7 − 5 = 2 is allowed.

Conclusion ⇒ R.A. after should be lower of

	S1	S2
a) R.A.	6	11
b) O.C.A. (w/o I.L.)	7	7
	6	₹7

4) Steps for Reversal

Step1 :- Calculate C.A. as on D.O.R. of I.L.

Step2 :- Calculate O.C.A. had there been No I.L.

Step3 :- Calculate R.C.A. after Reversal of I.L.

↓

i) R.A as on D.O.R.

ii) Original C.A. (step2)

Step4 :- Amount of Reversal of I.L

Step3 − step1

Step5 :- Recognition of I.L.

→ Reversal of I.L. is generally recognised in P/L.

→ However if I.L. is recognised in R.R. (OCI) in earlier years, then Reversal of I.L. is firstly recognised in R.R. upto I.L. recognised in R.R.

in earlier years

Journal

i) Asset Dr
To I.L. Reversal

ii) I.L. Reversal Dr
To R. Surp. xxx (upto I.L. in Rev. Surp in earlier yrs.)
To P&L. xxx (Bal.)

Steps :- Revised C.A.

C.A. before Reversal	xxx
+ Reversal of I.L.	xx
	xxx.

Dep. will be charged on this Revised C.A. in future.

Question# 11

X LTD purchased PPE for RS. 1 lac on 1-4-1990 its useful life is 10 years on 31-3-92 , x ltd estimated FVLCD as RS. 65000 and VIU RS. 72000 On 31-3-1995 Recoverable amount of PPE is Estimated to be RS. 51000

Soln :-

Step 1 :- Calc of I.L. as on 31-3-25

C.A. as on 31-3-25 $\Rightarrow$ $100000 - \left(\frac{100000}{10} \times 2\right) \Rightarrow 80000$

R.A. as on 31-3-25 ⇒ higher of

a) FV LCD 65000

b) VIU 72000

I.L. (72000 − 8000)

Step 2 :- Cal^{n} of Revised C.A as on 31-3-25

C.A.	80000
− I.L.	(8000)
Rev. C.A.	72000

Step 3 :- Cal^{n} of C.A. as on 31-3-28

C.A. as on 31-3-25	72000
Dep. upto 31-3-28 $\left\{\frac{72000}{8} \times 3\right\}$	(27000)
C.A.	45000
R.A.	5100

means C.A < R.A.

∴ Rev. of Imp. exist.

Step 4 :- Original C.A. as on 31-3-28 without Imp.

C.A. as on	1-4-23	100000
Dep. upto 31-3-28	$\left\{\frac{100000}{8} \times 5\right\}$	(50000)

10 × 5 = 5000

Step 5 :- Revised C.A. after Rev. Cs on 31-3-28

lower of

a) R.A on 31-3-28 — 5000

b) Original C.A. (w/o I.L.) (Step 4) — 5000

∴ 5000

Step 6 :- Rev. of I.L.

C.A. on 31-3-28 — 45000

Rev. C.A. (Step 5) — 50000

Reversal — 5000

Step 7 :- PPE Dr 5000

To I.L. 5000.

Step 8 :- Rev. C.A. after Reversal

C.A. on D.O.R. 45000

+ Reversal of I.L. 5000

5000

Question# 12

1. Original cost of fixed asset on 01.04.17 is ₹ 10,000.
2. Life is 10 years with recoverable amount as on
   - 31.3.18 ₹ 7,000
   - 31.3.20 ₹ 9,000

CASE – 1 – Depreciation is SLM

CASE – 2 – Depreciation is 10% WDV method.

Step 1 :- Cal^n of I.L. on 31-3-18

C.A.		9000
R.A.		7000
I.L.	$\left(\frac{10000}{10} \times 2\right)$	2000

Step 2 :- Rev. C.A. on 31-3-18

C.A.	9000
– I.L.	(2000)
R.C.A.	7000

Step 3 :- C.A. as on 31-3-20

C.A. as on 31-3-18		7000
– Dep.	$\left(\frac{7000}{9} \times 2\right)$	(1555)
C.A.		5445
R.A.		9000

∵ CA < RA.

∴ Indicator of Imp. is Reversed.

Step 4 :- Calⁿ of C.A. w/o I.L.

Original C.A.	10000
– Dep. $\left\{\frac{10000}{10} \times 2\right\}$	(2000)
	8000

Step 5 :- Calⁿ of Revised C.A. after Rev. as on 31-3-20

a) R.A.	9000
b) C.A. (w/o imp) (Step 4)	8000

∴ 8000

Step 6 :- Rev. of I.L.

i) C.A. on 31-3-18	5445
ii) C.A. (w/o imp)	8000
Rev.	1555

Step 7 :- PPE Dr 1555
To I.L. 1555

Step 8 :- Revised C.A. after Reversed.

C.A. before Rev.	5445
Rev.	1555
	7000

+ Reversal 155

800

Question# 13 — **TYK Q. 6 SM , SIMILAR TO JULY 21 EXAM**

X ltd purchased an asset on 01.04.01 for ₹ 100 lacs. It has useful life of 4 years with no residual value. Recoverable amount of asset is as follows:
31.3.02 – 60 lacs; 31.3.03 – 40 lacs and 31.3.04 – 28 lacs
Calculate impairment loss and reversal for all the three years.

Soln :-

(₹ in lacs)

Step 1 Cal^{n} of I.L. as 31-3-02

Cost	100
− Dep. $\left(\frac{100}{4} \times 1\right)$	(25)
C.A.	75
R.A.	60
I.L.	15

Step 2 :- Rev. C.A. on 31-3-02

C.A.	75
− I.L.	(15)
R.C.A.	60

Step 3 :- C.A. as on 31-3-03.

R.C.A as on 31-3-02	60
− Dep $\left(\frac{60}{3} \times 1\right)$	(20)
C.A.	40

R.A. 40

∵ C.A. = R.A.

∴ NO I.L. Or Rev. of I.L.S.

C.A. on 31-3-03 = 40.

– Dep. $\left(\frac{40}{2} \times 1\right)$ (20)

C.A. 20

R.A. 28

∵ CA < RA.

∴ Indicator of Imp. is Reversed.

Step 4 :- C.A as on 31-3-04 without impairement.

Original Cost	100
– Dep $\left(\frac{100}{4} \times 3\right)$	(75)
	25

Step 5 :- Revised C.A. as on 31-3-04.

i)	R.A.	28
ii)	C.A. (w/o imp.)	25 (step 4)

∴ 25

Step 6 :- Reversal of Imp. Loss.

i) C.A. on 31-3-04 20

ii) C.A. (w/o imp.) 25

Rev. 5

Step 7 :- JE

PPE Dr 5

To I.L. 5

Step 8 :- Rev. C.A. after Rev.

C.A. on 31-3-04 20

+ Rev. 5

25

Question# 15 **DEC 21**

H Ltd. constructed a warehouse at a cost of ₹ 10 lakhs in 2015. It first became available for use by H Ltd. on 1st January 2016. On 29th January 2020, H Ltd. discovered that its warehouse was damaged. During early February 2020, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27th January 2020. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31st December 2019. This estimate was ₹ 6,00,000.

Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life.

Seepage of rain water through the crack in the warehouse caused damage to inventory worth about ₹ 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st December, 2019. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st December, 2019 were approved for issue by the Board of Directors on 28th February, 2020.

You are required to:

Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st December, 2019. Kindly ignore tax impact;

Discuss disclosure requirement in above case as per relevant Ind AS; and Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31 st December, 2019?

Soln :-

i) Cal^{n} of I.L. as on 31-12-2019

1-1-2016	Cost	1000000
31-12-2018	Dep. for 3 years. ($\frac{10L}{30yrs} \times 3 = 1L$)	(100000) (Dep p.a. = 33333)
1-1-2019	C.A.	900000
31-12-2019	Dep. ($\frac{900000}{17} = 52941$)	(52941) → 52941
31-12-2019	C.A.	847059
	R.A.	600000
	I.L.	247059

Add^{n} Dep. due to Δ in useful life = 52941 − 33333
= 19608

ii) Journal as on 31-12-2019.

a) Dep. Dr 19608
To warehouse acc dep. 19608

b) I.L. Dr 247059
To warehouse 247059

iii) Disclosure requirement.

a) The damage in the warehouse is an adjusting event for year ended 31-12-19. Since it provided evidence that structural fault existed from 2016 & on 31-12-2019 also.

b) Damage of inventory of ₹ 12Lac is an Non adjusting event. Since damage is due to sewage of rain water in Jan 2020 where evidence was not existing on 31-12-2019.

∴ w/off inventory in 2020 & disclose loss in notes to A/c of 2019.

c) if there was no structural fault then

i) useful life of ware house would not have been revised. & ∴ there would not have been any add^{n} dep.

ii) moreover No I.L. would have been recognised in 2020.

iii) it will be considered as Non

Adjusting event.

X

Note :- if R.A. of Asset becomes higher than C.A. only beoz of unwinding of Int on future cashflows (i.e. VIU) is cfs remains same

↓

then Reversal of I. Loss cannot be done.

#7 Cash generating units. [CGU] :-

a) Meaning :-

CGU is →
- Smallest
- identifiable
- grp of assets
- which are capable of generating cfs.
- there are largely independant of other assets / grp of assets.

eg:- a) assets in 1 class Room b) Cinema theatres.

↳ furniture
↳ A.V. equipment
↳ laptop.
↳ books.

↳ Hall
↳ Screen

c) Packed Juice Co.
↳ Juicer
↳ packaging machine
↳ fruits.

Note-1 :- A CGU may consist of inventory
↳ books, movie, CDs, fruits.

Note-2 :- A CGU may have I.T.A.
↳ software of lectures in laptop.
↳ Patents.

Note-3 :- A CGU may liability to it.
↳ prov. for DSR.
(But it will not impair, its C.A. will be reduced from C.A. of asset.

Note-4 :- ACGU may have DTA but it will not impair.

eg-3. There are 3 Assets A, B & C. A can generate cashflows independantly But B & C

Cannot generate cash flows w/o A.

Soln :- then

1st ⇒ A should be impaired individually.

IInd ⇒ In calculating C.A. of CGU

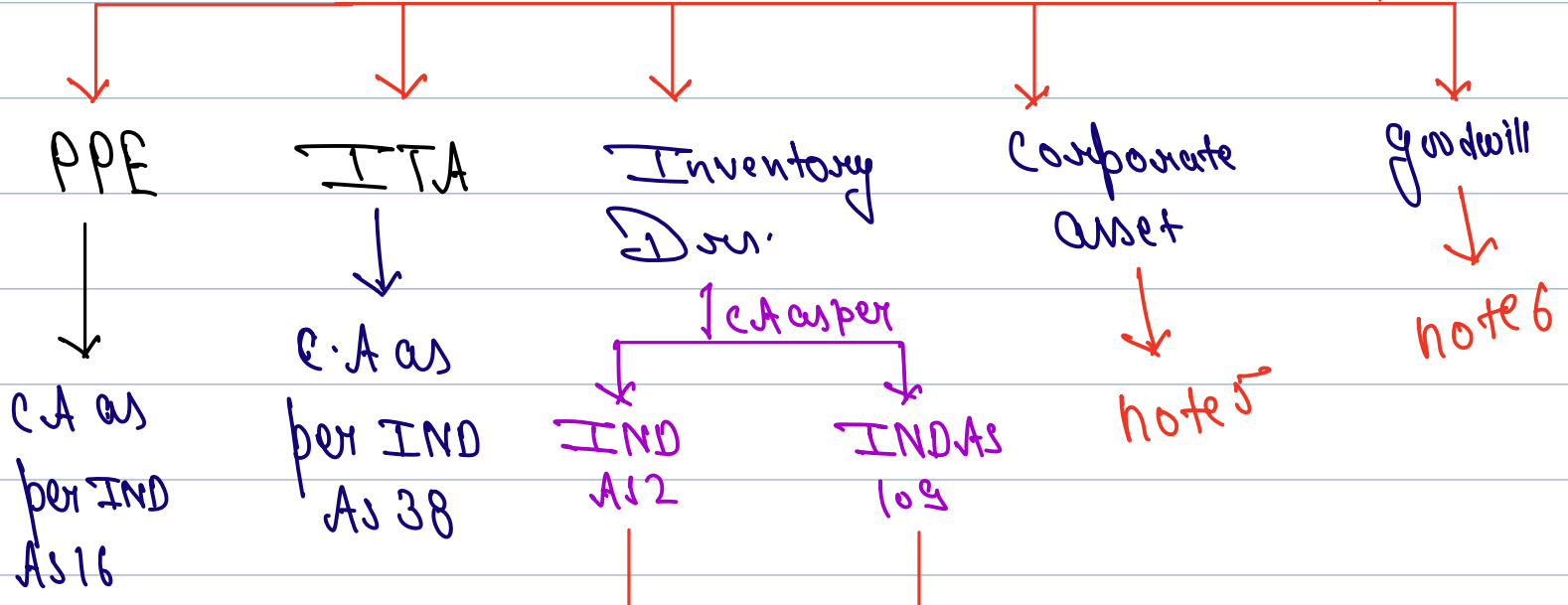
Revised C.A. of A + C.A. of B + C.A. of C.

Should be considered.

b) Why CGU ?

Some times R.A. of individual asset cannot be determined. ∵ that asset does not generate cashflows independantly. hence its use cannot be calculated.

In such cases impairement of Such assets. will be done in C.G.U.



These assets are not impaired under this Standard

Note 5 :- Non CGU or Corporate asset

Eg → HR dept, RSD Dept, Head office, Godown; All dept, office Building, Canteen.

↓

C.A. = Cost − Acc. dep. upto date

Note 6 :- Goodwill

i) GW in SFS recognised only bcoz of biz. Combination under IND AS 103.

ii) GW does not generate cashflows independatly but it helps CGU generate extra cashflows. (Synergy)

iii) C.A. of GW = N.A.T.O. − P.C.
= GW

c) How to impaire CGU

Impairement in CGU will be done in 3 parts.

- CGU w/o C/A & GW (a)
- CGU with C.A. (b)
- CGU with GW (c)

a) CGU w/o C.A. & GW

i) if R.A > C.A. of CGU ⇒ No I.L.

ii) if R.A < C.A. of CGU ⇒ Then I.L.

C.A. of CGU	xx
R.A. of CGU	xx
I.L. ⇒	xx

Such I.L. would be allocated to each asset in ratio of C.A. of Individual Asset but after subtracting / reducing share of I.L. from their Individual Asset

then Revised C.A. should not fall below

i) Zero
ii) FVLCD.

eg-4

	A1	A2	CGU
C.A.	10	15	25
R.A.			18
I.L. (in 2:3)			7
	(2.8)	(4.2)	(7)
Revised C.A.	7.2.	10.8	0

FVLCD

7 → No problem.

7.5. → Problem

Revised C.A. can be min. 7.5.
Since independantly it can cover 7.5.

∴ maximum I.L. of A1 = 10 − 7.5
= 2.5

∴ Excess of I.L of A1 = 2.8 − 2.5
= 0.3.

Allocate to A2.

if 0.3 cannot be allocable to A2 then it will remain unallocable.

(No Q. in ICAI posted yet.)

Question# 17

CA of assets under CGU are
P/M = 50000
Equipment = 30000
Software = 20000
Inventory = 40000
DTA = 5000
RA of CGU = 115000
Cal Rev CA of I.A

Soln :- Step 1 Cal^{n} of I.L. of C.G.U.

C.A. of CGU		
P/M	50000	
Equipment	30000	
Software	20000	
Inventory	40000	
DTA.	5000	145000
R.A. of CGU		115000
	I.L.	30000

I.L. of ₹ 30000 should be allocated to P/M, Eq. Software in ratio of C.A.

Step 2. Calⁿ of Revised C.A.

	P/M	Equipment	Software	Inv.	D.T.A.
C.A.	50000	30000	20000	40000	5000
-I.L.(5:3:2)	(15000)	(9000)	(6000)	—	—
	$\left(\frac{30000}{10}\times 5\right)$	$\left(\frac{30000}{10}\times 3\right)$	$\left(\frac{30000}{10}\times 2\right)$		
R.C.A.	35000	21000	14000	40000	5000

Question#18

an entity which shows indicators of impairment of furniture but it does of not have its VIU independently CA of furniture ₹50000.

The smallest group of Asets that have independents CFS are P/M and Equipment having C.A. sof ₹ 300000 & ₹4000 in B/s.

Net Selling price of furniture 30000
NSP of P/M 270000
(with the help of furniture & eq.)
R.A of equipment 0
Calculate IL if

1. RA 500000 ✓
2. RA 290000 ✓
3. RA 370000 H.W.

Soln :- Case 1 :- R.A. ⇒ 500000

Step 1 Calⁿ of I.L. of CGU

C.A. of CGU (F + PIM + Eq.) 390000
R.A. of CGU 500000
∴ No I.Loss.

∵ R.A. > C.A. of CGU.

∴ No I.L.

Case 2. R.A. = 290000

Step 1 Cal^{n} of I.L. of CGU

C.A. of CGU (F + PIM + Eq.)	390000
R.A. of CGU	290000
I.L.	100000

Step 2 maximum I.L. of Imp. am. (possible only if N.S.P. of I.A. is given)

Particulars	Furniture	PIM	Equip.
a) C.A.	50000	300000	40000
b) Share of I.L. (5:30:4)	(1282)	(76923)	(10256)
c) R.C.A.	37179	223077	29744
d) Excess of I.L. of P.M. ₹46923 (270000 − 223077) allocated to f/s E in 5:4	(26068)	+46923	(20855)
e) Rev. C.A.	11111	270000	8889

f) Excess of I.L. of furniture ₹ 18889 (30000 − 11111) allocated to eq. restricted to ₹ 8889.

	+18829	—	(8889)

g) R.C.A.	3000	27000	0
h) I.loss allocated (A-g)	2000	3000	4000

Case - 3 R.A. 27000 (H.W.)

Question#19

CGU	CA	LIFE
A1	4 L	10 years
A2	6 L	20 years

RA of CGU = 8 Lacs
RA of CGU after 2 years = 10 Lacs
Cal I.L & reversal of I.L Of CGU

Soln :- Step1 Calⁿ of I.L. of CGU

C.A. of CGU	1000000
R.A of CGU	800000
I.L.	200000

Step2 :- maximum I.L. of Ind. Asset.

Not available

∵ FVLCD of I.A is not available.

Step3 :- Calⁿ of R.C.A.

Particulars	A1	A2	CGU
Original C.A.	400000	600000	1000000
Sh. of I.L. (2:3)	(80000)	(120000)	(200000)
Rev. C.A.	320000	480000	800000

Step 4. Calⁿ of Rev. C.A. & Reversal of I.Lon. after 2 years.

	A1	A2	CGU.
a) C.A.	256000	432000	688000

$A_1 = 320000 \times \frac{8}{10}$

$A_2 = 480000 \times \frac{18}{20}$

b) original C.A. w/o impairement. 320000 540000 860000

$A_1 = 4L \times \frac{8}{10}$

$A_2 = 6L \times \frac{18}{20}$

c) R.A. after 2 yrs 1000000

d) Revised C.A. 320000 540000 860000

(lower of b & c)

e) Reversal of I.L. ~~64000~~ 35856 ~~108000~~ 136144. ← 171000 in (2048 : 7776)

(d − a)

in the ratio of individual assets C.A. alongwith their remaining useful life in case of CGU ind. Asset.

(256×8 : 432×18)

(2048 : 7776)

(i) maximum Rev. of I. Loss allowed.	64000	108000	172000
(ii) ∴ Reversal (actual) (lower of (i) & (ii))	35856	108000 (Reversal is of 136194 but it is restricted to 108000)	143856

Steps Cal^{n} of Revised C.A. after Reversal.

	A1	A2	CGU
C.A.	256000	432000	688000
+ Reversal	35856	108000	
	291856	540000	

Question#20

A CGU consists of 3 assets namely P/M 50000, Furniture 30000 and Equipment 20000 there is an indication of impairment of P/M & furniture but Furniture cannot generate CFS independently

	VIU	FVLCD
P/M	40000	38000
Furniture	-	25000

RA of CGU = 80000

Soln :- Step1 Cal^{n} of I.L. of P/M.

∵ it generates cash flows.

a) C.A. of PIM 50000

b) R.A.

i) VIU 40000

ii) FVLCD 38000

higher of VIU & FVLCD 40000

I.L. 10000

Rev. C.A. of PIM = 50000 − 10000

= 40000

Step2 Cal^n of I.L. of CGU.

a) C.A. of CGU (40000 + 30000 + 20000) 90000

b) R.A. of CGU 80000

I.L. of CGU 10000

Step3 maximum I.L. (of Ind. assets)

	Furniture	Equip.
a) C.A.	30000	20000
b) FVLCD	25000	0
	5000	20000

Step4 Rev. C.A.

	PIM	Furni	Equipm.
a) C.A.	5000	3000	2000
b) I.L. of PIM	(1000)		
c) I.L. of CHU blw F&E. in 3:2		(6000)	(4000)
d) excess I.L. of furniture = ₹1000 (6000 − 5000) allocated to Equipment		+1000	(1000)
e) R.C.A.	4000	2500	1500
f) I.L. (a−e)	1000	500	500

b) CGU with Corporate Assets.

Question#21

Hd ltd has 2 CGU consisting of 3 assests each as under

CGU	P/M	FURNITURE	EQUIP
CA	10 L	5 L	5 L
CA	8 L	4 L	4 L

HD LTD has 1 corporate asset of RS. 10 lacs

CASE 1 – corp asset is allocable to only

CGU 1 & RA of CGU$_1$ = 24 L

RA OF CGU$_2$ = 18 L

CASE 2 - Corp Asset is allocable to both CGU in the ratio of 3: 7

R A of CGU1 = 2000000

R A of CGU 2 = 2500000

CASE 3 - CA is unallocable &

R.A of CGU1 =1800000

R A of CGU2 = 1700000

R.A of entity = 4100000

Soln :- Case 1 C.A. is allocable to CGU1

Step 1 cal^n of I.L. of CGU.

	CGU1		CGU2.
P/M	1000000	laptop	800000
Eq.	500000	software	400000
Furniture	500000	A.V. Equipment	400000
C. Assets.	1000000		
C.A.	3000000	C.A	1600000
R.A.	2400000	R.A.	1800000
I.L.	600000	No I. lon	

∵ CA < R.A.

Step 2 Cal^n of Revised C.A.

	Total	PIM	Equip.	Furnite	C.A.
i) C.A.	300000	100000	50000	50000	100000
2) I.L. (2:1:1:2)	(60000)	(20000)	(10000)	(10000)	(20000)
Rev. C.A.	240000	80000	40000	40000	80000

Case 2 C.A. is allocable to both CGU1 & CGU2

Step 1 Cal^n of I.L. of CGU

CGU1		CGU2.	
PIM	100000	laptop	800000
Eq.	50000	software	400000
Furniture	50000	A.V. Equipment	400000
C. Assets.	300000	Comp. Assets.	800000
C.A.	1300000	C.A	2300000
R.A.	2000000	R.A.	2500000
I.L.	300000	I.L.	No I.L.

$\because$ C.A < R.A.

Step 2 Cal^n of Revised C.A. of Ind. Ass. in CGU1

	Total	PIM	Furni	Eq.	C.A.
i) C.A.	2300000	100000	50000	50000	300000
ii) I.L. (10:5:5:3)	(300000)	(130435)	(65217)	(65217)	(39130)

Rev. C.A.	200000	869565	434783	434783	26087

Case 3 :- C.A. is unallocable.

When C.A. is unallocable then 2 stage I.L. process is carried as under

Stage 1 Cal^{n} of Rev. C.A. of CGU w/o C.A.

Step 1 Cal^{n} of I.L. of CGU1 & CGU2

CGU1		CGU2	
PlM	100000	laptop	800000
Eq.	500000	software	400000
Furniture	50000	A.V. Equipment	400000
C.A.	2000000	C.A.	1600000
R.A.	1800000	R.A.	1700000
I.L.	200000	No I.L.	∵ CA < R.A.

Step 2 Cal^{n} of Rev. C.A. of CGU1 ind. Ass.

	Total	PlM	Eq.	Furniture
i) C.A.	2000000	100000	500000	500000
ii) I.L. (2:1:1)	(200000)	(100000)	(50000)	(50000)

Rev. C.A.	1800000	900000	450000	450000

Stage 2 cal^{n} of I.L. of Corp. Assets:

Rev. C.A. of CGU1	1800000
R.A. of CGU2	1600000
C.A. of Corporate asset	1000000
C.A. of entity	4400000
R.A. of entity	4100000
I.L. of Corp. Assets	300000

c) CGU with goodwill

i) goodwill should be allocated on arbitrary basis or Non arbitary basis to each CGU to which it helps to generate extra cfs through synergy effect.

Arbitary basis ⇒ any ratio

Non arbitary basis ⇒ ratio of extra cfs generated through synergy.

ii) Each unit / group of unit to which goodwill is allocated shall → smallest group/segment (CGU)

represent the **lowest level** within the entity at which goodwill is monitored for internal mgmt purpose.

is

not for **larger** than operating segment.

↓

if benefit comes to one of 3 CGU but 3 CGU is put together is one operating segment.

Eg-5 HD Ltd. has 2 CGU consisting of 3 assets each.

CGU1		PM	Furniture	Equipment.
	C.A	10L	5L	5L
CGU2		laptop	software	A.V. System.
	C.A.	8L	4L	4L

HD Ltd has also goodwill = ₹ 200000

Case I GW is allocable to CGU1

& R.A. of CGU1 = 16L

& R.A. of CGU2 = 18L.

Sol^n:- Step1 Calc^n of I.L. of CGU1 & CGU2

	CGU1		CGU2
P/M	1000000	laptop	800000
Eq.	500000	software	400000
Furniture	500000	A.V. Equipment	400000
goodwill	200000		
C.A.	2200000	C.A	1600000
R.A.	1600000	R.A.	1800000
I.L.	600000		No I. loss
− g/w.	(200000)		∵ C.A < R.A.
I.L. of other Ass	400000		

Step2 Rev. C.A.

	Total	P/M	furniture	equipment.	G/W
C.A.	2200000	1000000	500000	500000	200000
−I.L. (4Lin 2:1:1)	(600000)	(200000)	(100000)	(100000)	(200000)
	1600000	800000	400000	400000	0

Case 2 goodwill is allocable in CGUs @ 1:3

ratio.

R.A. of CGU1 = 18 Lac.

R.A. of CGU2 = 20 Lac.

Soln:- Step1 Cal^{n} of I.L. of CGU1 & CGU2.

CGU1		CGU2	
P/M	1000000	laptop	800000
Eq.	500000	software	400000
Furniture	50000	A.V. Equipment	400000
goodwill	50000	goodwill	150000
C.A	2050000	C.A.	1750000
R.A.	1800000	R.A	2000000
I.L.	250000	No I.L.	
- G/W.	(50000)	∵ CA < R.A.	
I.L. of other As.	200000		

Step2 Cal^{n} of Rev. C.A.

	Total	P/M	Furniture	Equip	- G/W
C.A.	2050000	1000000	50000	500000	50000
- I.L.(2L) (in 2:1:1)	(250000)	(100000)	(50000)	(50000)	(50000)
	1800000	900000	450000	450000	0

Case 3 GW is unallocable.

R.A. of CGU1 = 18L.
R.A. of CGU2 = 17L.
R.A. of entity = 35.5L.

When GW is unallocable then I.L. is done in 2 stages as carried below.

Soln :- Stage 1 Cal^n of Rev. C.A. of CGU.

Step1 Cal^n of I.L. of CGU1 & CGU2

CGU1		CGU2	
PIM	1000000	laptop	800000
Eq.	500000	software	400000
Furniture	500000	A.V. Equipment	400000
C.A.	2000000	C.A.	1600000
R.A.	1800000	R.A.	1700000
I.L.	200000	No IL ∵ RA>CA.	

Step2 Cal^n of Rev. C.A. of CGU1 ind. Amt

	Total	PIM	Furniture	Equip.
C.A.	2000000	1000000	500000	500000
I.L.(2:1:1)	(200000)	(100000)	(50000)	(50000)
	1800000	900000	450000	450000

Stage 2 Cal^{n} of I.L. of GW.

Rev. C.A. of CGU 1	1800000
C.A. of CGU 2	1600000
C.A. of GW	200000
C.A. of entity	3600000
R.A. of entity	3350000
I.L.	250000
– GW w/off	(50000)
Unallocable I.L.	0

max. till C.A. of GW i.e. ₹ 22.

eg → on 31st-3-1990 HDL Ltd has a CGU with following Assets

PM A	525000
PM B	250000
PM C	100000
Inventory	200000
GW	150000

R.A. of CGU = ₹ 1000000

P.M. A can be tested for impairment

individually also its R.A = 50000

Calculate Rev. C.A of each asset after impairement.

Soln :-

Step 1 :- Calⁿ of Rev. C.A. of PIM A

a)	C.A.	75000
b)	R.A.	50000
c)	I.L. (a-b)	25000
d)	Rev. C.A.	50000

Step 2 :- Calⁿ of IL of CGU

Rev. C.A. of PIM A 50000
PIM B 250000
PIM C 100000
inventory 200000
goodwill 150000

a) C.A. of CGU 1200000
b) R.A. of CGU 1000000
IL of CGU 200000
i) IL of goodwill (150000)

ii) I.L. of inventory — Always.

I.L. of PMB & C 50000

in the ratio of 25:10

iii) Share of I.L. of P.M.B = $\frac{25}{35} \times 50000 = 35714$

iv) Share of I.L. of P.M.C = $\frac{10}{35} \times 50000 = 14286$

Step 3 Cal. of Rev. C.A. of Ind. Asset.

	Total	PMA	PMB	PMC	Inv.	gw.
C.A.	1225000	525000	250000	100000	200000	150000
I.L.	(225000)	(25000)	(35714)	(14286)	—	(150000)
Rev.C.A.	1000000	500000	214286	85714	2L.	0

Conclusion :- when goodwill & Corp. Asset is allocable

Step1 :- Revised C.A. of Ind. Asset.

which can impair individually i.e.

I.A. whose VIU & FVLCD is

available.

Step2 :- Cal^{n} of max. I.L. of Ind. Asset.

C.A	xxx
FVLCD	(xxx)
	xxx

Step 3 :- Calⁿ of I.L. of CGU

Rev. C.A. of Ind. Aset (Step 1)	xxx
C.A. of other Aset	xxx
C.A. of other Comp. Aset.	xxx
C.A. of Current Aset	xxx
C.A. of goodwill	xxx
a) Total C.A. of CGU	xxx
b) Total R.A. of CGU	xxx
c) I.Los of CGU	xxx
– I.los of C.A.	xxx
– I.los of goodwill	xxx
(max. upto its C.A.)	

I.los of other Aset & Comp. Aset of CGU. xxx

- other Aset
- Comp Aset.

(in ratio of their C.A.)

Conclusion :- when GW & Corporate Aset is unallocable

In this Case Step 1 & Step 2 are same.

Step 1 :- Revised C.A. of Ind. Asset. which can impair individually I.A. whose VIU & FVLCD is available.

Step 2 :- Cal^{n} of max. I.L. of Ind. Asset.

C.A	xxx
FVLCD	(xxx)
	xxx

Stage I

Step 3 Cal^{n} of I.L. of CGU

Revised C.A. of I.A. (as per step 1)	xxx
C.A. of other I.A.	xxx
C.A. of Current Asset.	xxx
a) C.A. of CGU	xxx
b) R.A. of CGU	xxx
c) I.L. of CGU	xxx

Step 4 :- Cal^{n} of Rev. C.A. of CGU

C.A. of CGU	xxx
- I Loss of CGU	(xxx)
Rev. C.A. of CGU	xxx

Stage 2

Step 5 Calculate I.L. of gw & C/A.

Revised C.A. of all CGU	xxx
Corporate Assets	xx
Goodwill	xxx
a) Total C.A. of entity.	xx
b) Total R.A of entity	x x
Total I.L ors.	xxx
— gw wioff.	(xxx)
	xxx
— Corp. Asset wioff	(xxx)
Unallocable I.L.	xxx

Question# 16

1. Carrying amount of license of a Coal mine is ₹ 50 lacs
2. Carrying amount of roads constructed for mine is ₹ 10 lacs
3. Net FV of CGU is ₹ 35 lacs
4. Cash inflow for CGU for first 5 years is ₹ 15 lacs per annum
5. Salvage value of CGU is ₹ 1,00,000 and discounting rate is 10%

Soln :- Step 1 :- Caln of I.L. of Ind. Asset.

N.A.

Step 2 :- Caln of max. I.L. of ind. Asset.

N.A.

Step 3 :- Caln of I.L. of CGU

C.A. of Coal mine 5000000

C.A. of Road. 1000000

6000000

a) C.A of CGU

b) R.A. of CGU

1) FVLCD 3500000

2) VIU. 5748290 5748290

{ 15L × PVAf@10% for 5yrs
+
1Lac × Df @10% for 5yrs } 251710

I.L. 251710

Grift.

Step 4 Rev. C.A. of CGU

	Coal mine	Road.
a) C.A.	5000000	1000000
b) I.L. (251710 in 5:1)	(209758)	(41952)
	4790242	958048

Question# 17

ABC ltd has three CGU namely A,B and C and corporate assets X and Y. The details of which are given below

Particulars	Carrying amount	Remaining life recoverable	Recoverable amount
A	500	10 years	600
B	750	20 years	900
C	1100	20 years	1400
X	600	-	-
Y	200	-	-

Recoverable amount of ABC is ₹ 3,200

X is allocable and Y is not allocable

Calculate revised carrying amount

Soln :- Since Ratio of allocation is not given in Q.

∴ we should allocate it in Ratio of C.A × life of Individual Anet

		A	B	C
a)	C.A.	500	750	1100
b)	life	10	20	20
	(a×b)	5000	15000	22000
	Ratio	5	15	22

Step 1 Calⁿ of I.L of Ind Anet.

N.A.

∵ details of Ind. Anet not given.

Step 2 Calⁿ of max. I. Loss of Ind. Anet

N.A.

Step 3 Calⁿ of I.L. of CGU along with Comp. Anet ×

CGU A CGU B CGU C

C.A.	500	750	1100	
CIA x (600 in 5:15:22)	71	214	315	
C.A.	571	964	1415	
R.A.	600	900	1400	
IL	—	64	15	

Step 4. Cal^n of Rev. C.A.

	CGU A	CGU B	CGU C	X
C.A.	500	750	1100	600
IL (64 in blw CGU B & X in 750:214)	—	(50)	—	(14)
IL (15 in blw CGU C & y in 1100:315)	—	—	(12)	(3)
Rev. C.A.	500	700	1088	583

Step 5 Cal^n of I.L. of CGU y.

Rev. C.A. of CGU A. 500

B 700

C 1088

C/A X 583.

C.A of C/A Y 200

Total C.A. 3071

R.A. of entity 3200

I.loss of corp. Ass. Y 0

Question# 18

Goodwill is ₹ 6,00,000 in A 40% and B 60%

	A	B
Carrying Amount	10 lacs	15 Lacs
Recoverable amount	9 lacs	12 lacs

Calculate IL of corporate asset.

Soln :- Step 1 :- Cal^n of I.L. of Ind. Aset.

N.A.

Step 2 :- Cal^n of max. I.L. of ind. Aset.

N.A.

Step 3 Cal^n of I.L. of CGU

	CGU A	CGU B.
C.A.	1000000	1500000
+ goodwill (6 Lac in 40:60)	240000	360000
C.A (incl. gw)	1240000	1860000
R.A.	900000	1200000

I.L. of CGU	340000	300000

Step 4 Revised C.A.

	CGU A	CGU B	Goodwill
C.A.	1000000	1500000	600000
I.L.	(340000)	(300000)	(600000)
Rev. C.A.	660000	1200000	—

Question# 20

A. Goodwill is ₹ 200 lacs
B. CA of CGU is ₹ 1,000 lacs (life – 10 years) as on 1.4.01
C. RA of CGU is ₹ 600 lacs as on 31.3.02
Calculate revised CA

Soln :- ₹ in lacs.

Step 1 :- Cal^n of I.L. of Ind. Asset.

N.A.

Step 2 :- Cal^n of max. I.L. of ind. Asset.

N.A.

Step 3 :- Cal^n of I.L. of CGU

C.A. as on 31-3-02	900
$(1000 \times \frac{9}{10})$	
Goodwill	200
C.A. incl. goodwill	1100

R.A. 600

I.L. (200)

- Gw w/off

I.L. of CGU 300

Step 4 Revised C.A. of CGU

C.A. of CGU 900

- I.L. of CGU (300)

600

Question# 19

A. Goodwill is ₹ 80,000 on 1.4.2001
B. Carrying amount of CGU is ₹ 3,20,000 on 1.4.2001 (20 years)
C. Recoverable amount of CGU on 31.3.03 - ₹ 2,12,000
D. Recoverable amount of CGU on 31.3.05 - ₹ 3,04,000

Calculate revised CA as on 31.3.2005

Soln :- Step 1 :- Calⁿ of I.L. of Ind. Aset.

N.A.

Step 2 :- Calⁿ of max. I.L. of ind. Aset.

N.A.

Step 3 Calⁿ of I.L. of CGU on 31-3-03.

C.A. of CGU on 31-3-03 288000

$(320000 \times \frac{18}{20})$

+ goodwill 80000

C.A incl. goodwill	368000
R.A.	212000
	156000
I.L	(80000)
— Giw w/off I.L. of CGU	76000

Step 4 Rev. C.A. of CGU on 31-3-03.

C.A on 31-3-03	288000
I.L.	(76000)
Rev. C.A.	212000

Step 5 Calⁿ of Reversal of I.L. on 31-3-05

a) original C.A. = $288000 \times \frac{16}{18}$ = 256000

b) R.A. 305000

c) max. R.A. after Reversal — lower of a & b 256000

d) C.A. = $212000 \times \frac{16}{18}$ = 188444

e) Rev. of I.L. = (256000 − 188444) 67556

Step 6 Rev. C.A. as on 31-3-05

C.A.	188444.

+ Rev. of I.L.

64556
256000

Question# 21 **ICAI STUDY MATERIAL**

Elia limited is a manufacturing company which deals into a manufacturing of cold drinks and beverages. It is having various plants across India. There is a machinery A in the Baroda Plant which is used for purpose of bottling. There is one more machinery which is machinery B clubbed with machinery A. Machinery A can individually have an output and also sold independently in the open market. Machinery B cannot be sold in isolation and without clubbing with machine A it cannot produce output as well. The company considers this group of assets as CGU and an Inventory amounting to ₹ 2,00,000 and goodwill amounting to ₹ 1,50,000 is included in such CGU.

Machinery A was purchased on 1st Aril 2013 for ₹ 10,00,000 and residual value is ₹ 50,000. Machinery B was purchased on 1st April 2015 for ₹ 5,00,000 with no residual. The useful life of both Machine A and B is 10 years. The company expects following cashflows in the next 5 years pertaining to Machinery A. the incremental borrowing rate of the company is 10%

YEAR	Cashflows from Machine A
1	1,50,000
2	1,00,000
3	1,00,000
4	1,50,000
5	1,00,000 (excluding residual value)
TOTAL	6,00,000

On 31st March,2018, the professional valuers have estimated the current market value of machinery A is ₹ 7,00,000. The valuation fee was 1,00,000. There is need to dismantle the machinery before delivering it to buyer. Dismantling cost is ₹ 1,50,000. Specialised packaging cost would be ₹ 25,000 and legal fees would be ₹ 75,000. The inventory has been valued in accordance with Ind AS 2. The recoverable value of CGU is ₹ 10,00,000 as on 31st March, 2018. In the next year, the company has done the assessment of recoverability of the CGU and found that the value of such CGU is ₹ 11,00,000 i.e on 31st March, 2019. The recoverable value of machine A is ₹ 4,50,000 and combined Machine A and B is ₹ 7,60,000 as on 31st March, 2019.

Required

(a) Compute the impairment loss on CGU and carrying value of each asset after charging impairment loss for the year ending 31st March, 2018 by providing all the relevant notes to arrive at such calculation.

(b) Compute the prospective depreciation for the year 2018-19 bon above assets

(c) Compute carrying value of CGU as at 31st March, 2019.

Soln :-

CGU

PIM (A) → 1-4-13
Cost 10L.
S.V 50000
life = 10yrs

PIM (B) → 1-4-15
cost ⇒ 5L.
life = 10years.

CGU → 150000

Inventory → 200000

Other information

31-3-18	31-3-19.
FV of PIM_A = 700000	a) R.A. of PIM A 45000
Valn fees = 100000	b) R.A of PIM_{A+B} 76000
DSR 15000	c) R.A. of CGU 1100000
legal fees 4500	
Packaging 2500	
RoI 10%.	
cfs ⇒ given 5yrs.	
R.A. of CGU = 10L.	

c) R.A. of CGU 1100000
- b - a. → R.A. of B ⇒ 31000
- c - b → R.A. of Inventory 34000

Step 1 :- Calⁿ of I.L. of PIM A as on 31-3-18

a) C.A. as on 31-3-18 = $1000000 - \left(\frac{10L - 50K}{10}\right) \times 5yrs \Rightarrow 525000$

b) R.A. on on 31-3-18 higher of.

FVLCD

FV 700000

- CTD

a) DSR (150000)

b) Packaging (250000)

c) legal cost (75000)

450000

VIU

yrs	cfs	PV@10%	PV
1	150000	0.9091	
2	150000	0.8264	
3	150000	0.7513	
4	150000	0.6830	
5	150000	0.6209	
			489720

c) I.L. (a-b) 489720 - 35280 = 454440

d) Rev. C.A. as on 31-3-18 (a-c) 489720

Step2 Cal^{n} of I.L. of CGU on 31-3-18

Revised C.A. of mach. A. (Step 1) 489720

C.A. of Mach. B 350000

$\left(\frac{500000}{10} \times 3\right)$

Inventory 200000

Goodwill 150000

C.A of CGU 1189720

R.A. of CGU 1000000

I.L. of CGU 189720

- I.L. of PM A —
- I.L. of Inv. —
- I.L. of GW (15000)

∴ IL of machine B. 39720

Step 3. C.A. of Ind. Asset on 31-3-18

	PM A	PM B	GW	Inv	Total
C.A.	525000	350000	150000	200000	1225000
I L.	(35280)	(39720)	(150000)	—	(225000)
Rev C.A.	489720	310280	—	200000	1000000

Step 4. Cal^{n} of Reversal of I.L. as on 31-3-19.

A	B	Inv.	GW	Total

a) C.A. 489720 310280

$\frac{489720 - 5000}{5 \text{ yrs.}}$ $\frac{310280}{7 \text{ yrs}}$

401776 265954 200000 — 867334

b) O.C.A. if there is No I. Loss.

$\frac{525000 - 5000}{5 \text{ yrs.}}$ $\frac{35000}{7 \text{ yrs}}$

43000 30000 20000 —

c) R.A. 45000 31000 34000 —

d) max. Revised C.A. after Rev. (bsc ↓) 43000 30000 20000

e) amt. of Rev. (d − a) 28224 34096 —

Calⁿ of C.A. after Reversal on 31-3-19.

	PIM A.	PMB	Inv.
Rev. C.A. bef. Rev.	401776	265954	200000
+ Rev.	28224	34046	—
C.A. after (a+b)	430000	300000	200000

8 Investment in Subsidiary

In B/C · 2 possibilities

A'ee Co. does not exist.
↓
Absorption
↓
SFS
↓
gw
↓
we have covered in #7 (c)

A'ee Co. exist.
↓
Subsidiary.
↓
CFS.
↓
gw.
↓
#8.

we will see how gw in Cons. fs gets impaired.

Step1 Cal. of gw

N.A. of S. as on DoA.	xxx
— Investment or P.C.	(xx)
— NCI (PSNA / FV)	(xx)
gw	xxx

NCI @ PSNA → Partial gw

NCI @ FV → Full gw

Step2 Calⁿ of I.L.

Net assets of S. as on Date of imp.	xxx
Add: Full goodwill (which is allocable to S's CGU)	xxx
C.A. of S. including gw	xxx
Recoverable amount.	xxx
I.L.	

HD → SFS. / group → CFS. → giw.

Buddy → Stand / SFS. → giw.

Step 3. Allocation of I.L.

₹ xxx

- Ist giw ₹ xxx
  - P. α
  - NCI β
- Net Assets of S. ₹ xxx
  - P (a)
  - NCI (b)

Should be recognised only if NCI @ FV.

∵ we take Recoverable amount of S

∴ we require g/w of entire S. not partial g/w.

g/w of entire S → Full g/w → NCI @ FV.

partial g/w → NCI @ PSNA.

HD cloud:

means. Subsidiary all i Net Assets.
+ g/w (full)

C.A. — R.A. → I.L.

Step 4 Journals.

a) I.L. Dr xxx
To g/w xxx (only recognised part)
To N.A. of S. xxx

b) P's P/L Dr (α + a) xxx
NCI Dr (β + b) xxx
To I.L. xxx

eg → goodwill = ₹ 5000

↓↓

Attributable to

P	S.
₹ 3000	₹ 2000
↓	↓
This is impaired with P's CGU as we have done in # 7	∴ this ₹ 2000 Should be impaired along with s's CGU in Consolidation

if Q.R.S.A. entire goodwill belongs to S's CGU.

Question# 22

A. Cost of Investment of P is ₹ 4,00,000 (80% share)
B. Fair value of Investment of NCI ₹ 2,00,000
C. Net Assets of S is ₹ 5,00,000 on Date of acquisition
D. Net Assets of S is ₹ 3,00,000 on Date of Balance Sheet and its
E. Recoverable Amount is ₹ 1,80,000

Calculate Impairment loss and show is accounting treatment.

Soln :- Step 1 Calⁿ of GIW

N.A. of S. as on DoA.		500000
− Investment	400000	
− NCI @ FV	200000	600000
	Full giw	100000

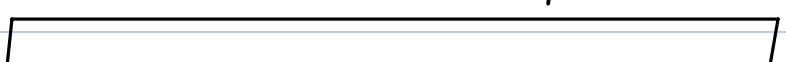
∵ Q.R.S. entire giw belongs to S's CGU.

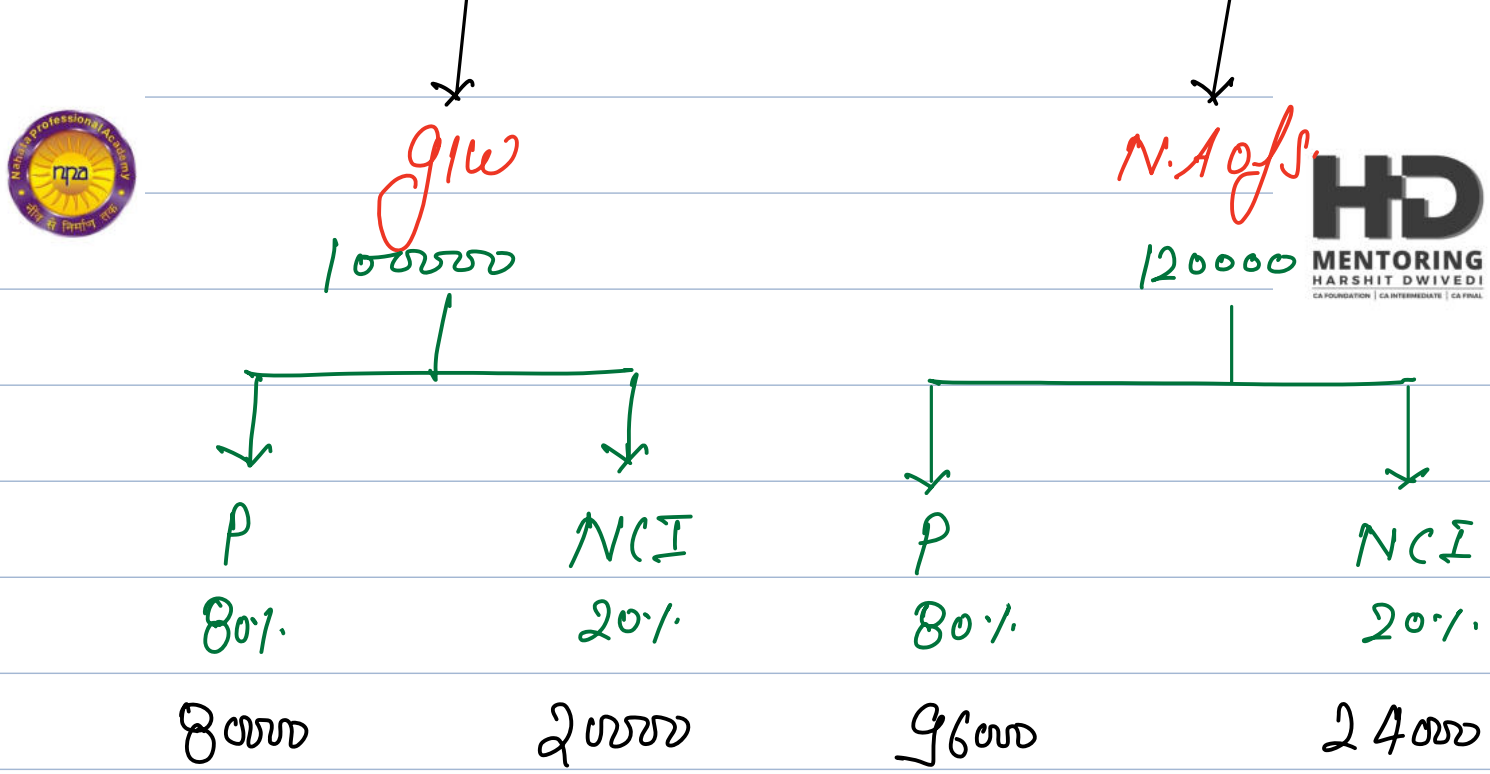
Step 2 Calⁿ of I.L.

N.A. of S. as on DOI.	300000
+ Full giw	100000
C.A	400000
R.A.	180000
I.L.	220000

Step 3. Allocation of I.L.

I.L. ⇒ ₹ 220000





Step 4 Journals.

i) I.L. Dr 220000
To GIW 100000
To N.A. of S. 120000

ii) P's PIL Dr (80000 + 96000) 176000
NCI Dr (20000 + 24000) 44000
To I.L. 220000

CFS

I 11-11

Question# 25 **ICAI STUDY MATERIAL**

A Ltd acquires 80% shares of a subsidiary B Ltd. for ₹ 3,200 thousand. At the date of

acquisition, B Ltd.'s identifiable net assets is ₹ 3,000 thousand. A elects to measure NCI at proportionate share of net identifiable assets.

	₹ in Thousand
Purchase Consideration	3,200
NCI (3,000 x 20%) 600	600
~~3,200~~	3,800
Less: Net Assets	(3000)
Goodwill	800

At the end of next financial year, B Ltd.'s carrying amount is reduced to ₹ 2,700 thousand (excluding goodwill).
Recoverable amount of B Ltd.'s assets is
Case (i) ₹ 2,000 thousand, Case (ii) ₹ 2,800 thousand
Calculate impairment loss allocable to Parent and NCI in both the cases

Soln :- Case I (₹ in '000)

Step 1 Caln of g/w.

N.A. of S. as on DoA		3000
− Inv. in S.	3200	
− NCI @ PSNA. (3000 x 20%)	600	3800
Partial g/w		800

Caln of Full g/w for S's CGU

Partial g/w	80%	800	Recognised
NCI g/w	20%	?? 200	Notional g/w.
Full g/w		1000	

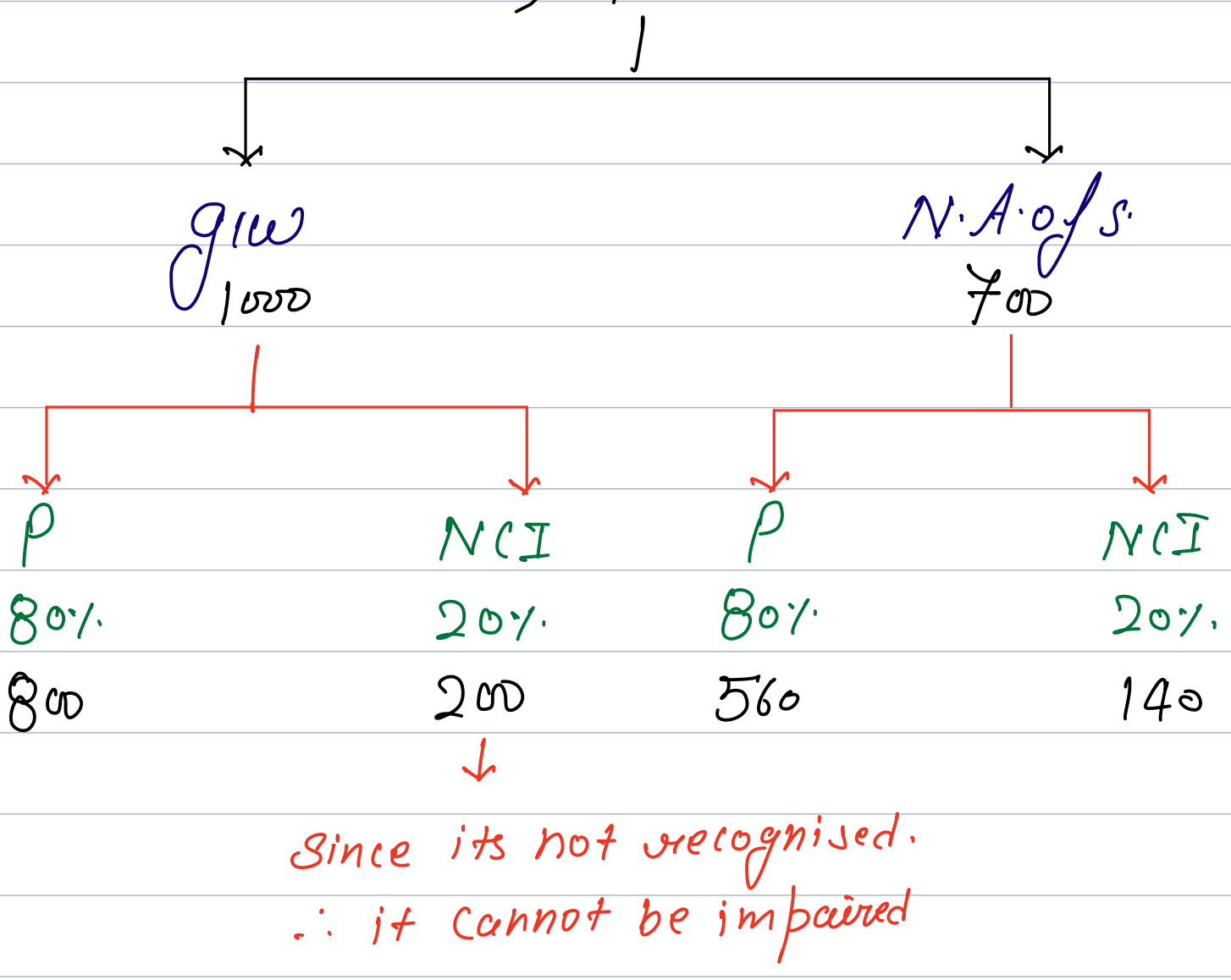
∵ Q.R.S. assume G/W belongs to S's CGU

Step 2 Calⁿ of I.L.

N.A. of S. as on	D.O.I.	2700
Full gw	(step 1)	1000
C.A.		3700
R.A.		2000
I.L.		1700

Step 3 Allocation of I.L.

⇒ 1700



↓

Since its not recognised.

∴ it cannot be impaired

Step 4 Alcing.

i) I.L. Dr 1500 (B/f)
To gw 800
To N.A. of S. 700

ii) P's PIL Dr (800 + 560) 1360
NCI Dr 140
To I.L. 1500

Case - 2.

Step 1 Cal^n of gw (same as in Case 1)

Step 2. Cal^n of I.L.

N.A. of S. as on DOI.	2700
Full gw	1000
C.A.	3700
R.A.	2800
I.L.	900

Step 3. Allocation of I.L.

⇒ ₹ 900

g/w
900

P	NCI
80%	20%
720	180

180 → Cannot be recognised.

N.A of S.

Step 4 A/cing

i) I.L. 720
   To g/w 720

ii) P's P/L Dr 720
   To I.L. 720

Question# 23 **SIMILAR TO TYK Q.3 ICAI SM**

A. P acquires 80% share in S for ₹ 2,100 on 1.4.01, on which date S's Net Assets were ₹ 1,500.

B. NCI is valued on PSNA basis.

C. On 31.3.02 CA of NA of S is ₹ 1,350 and its RA is ₹ 1,000

Calculate IL

d) Share of g/w attributable to P's CGU of ₹ 500

Soln :- Step1 Caln of g/w

N.A. of S as on DOA.		1500
- Invt. in S.	(2100)	
- NCI @ PSNA (1500×20%)	(300)	(2400)
Partial g/w.		900

900 belongs to:
- P's CGU: 500
- S's CGU: 400 (B/f)

Caln of full g/w.

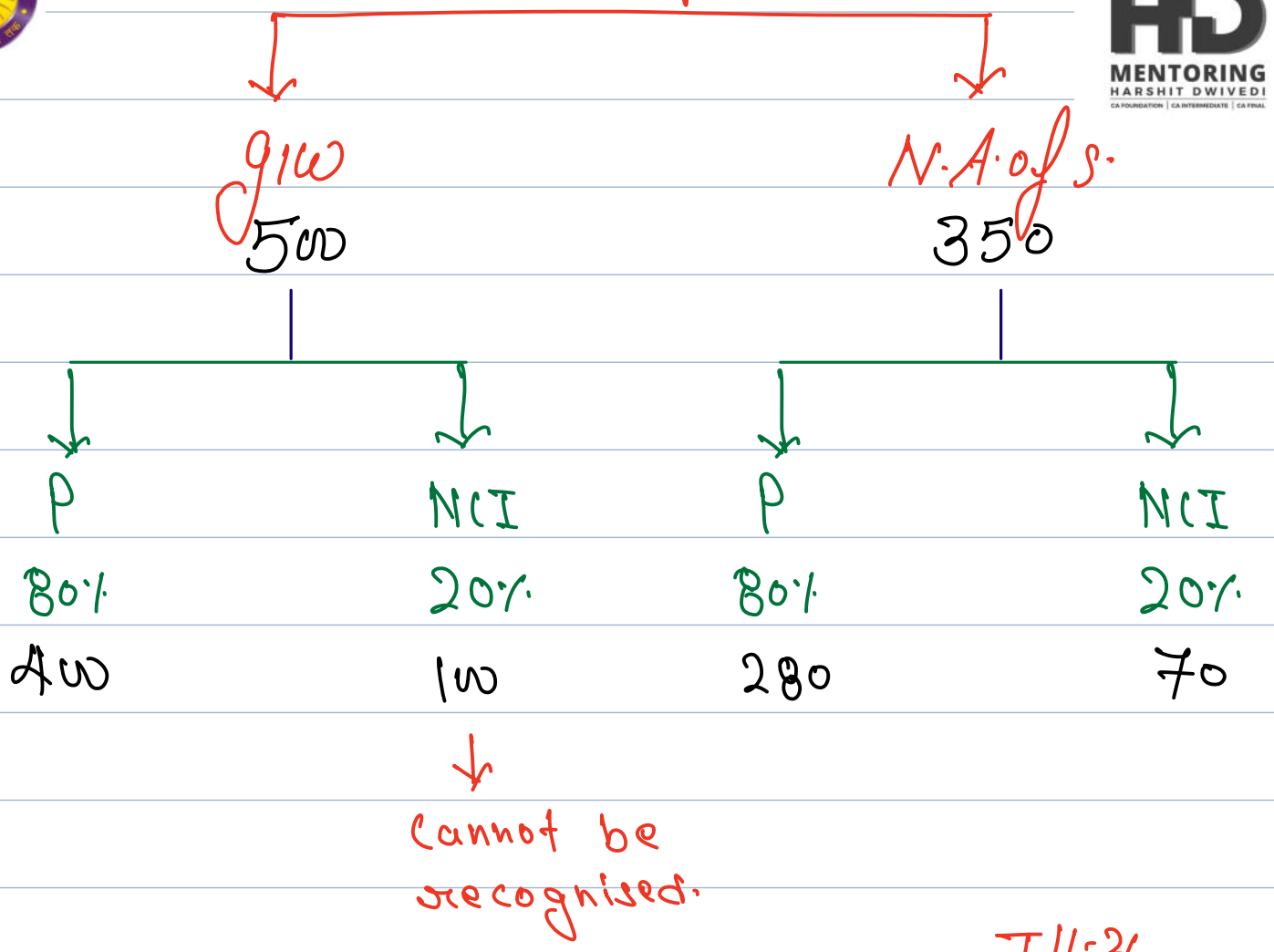
∵ Partial g/w	80%	400
NCI	20%	?? 100
full g/w.		500

Step2 Caln of I.L.

N.A. of S as on DoI.	1350
Full G/W	500
C.A.	1850
R.A.	1000
I.L.	850

Step3. Allocation of I.L.

₹ 850



II-21.

Question# 24 **ICAI STUDY MATERIAL**

Sun ltd acquired 80% interest in Pluto Ltd. Sun ltd acquired 8,00,000 shares in Pluto by issuing 2 equity shares for every 5 equity shares acquired. The FV of Sun ltd.'s share was ₹ 4 per share and the FV of Pluto's share ₹ 1.4 per share. The cost of issue were 5% per share. Sun limited incurred legal and professional Cost directly related to acquisition of ₹ 1, 00,000. The FV of NA of Pluto was ₹ 13, 00,000. NCI is measured on FV basis. They used market value of shares of Pluto for this purpose. ~~Pluto~~ Sun acquired 3 CGU namely A,B and C and Goodwill on acquisition to be allocated on 2:2:1

	A	B	C
CA	6,00,000	5,50,000	4,50,000
RA	7,40,000	6,50,000	4,00,000

Calculate IL

Soln:-

① Sun Ltd acquired 80% in Pluto Ltd = 8L Sh.

② NCI 20% Stake in Pluto Ltd. = 2L sh

Step 1 Cal^n of g/w

N.A. of S as on DoA.		1300000
− Invt. in S. (8L × 2/5 × ₹4)	1280000	
− NCI @FV (2L × ₹1.4)	280000	1560000
Full g/w		260000

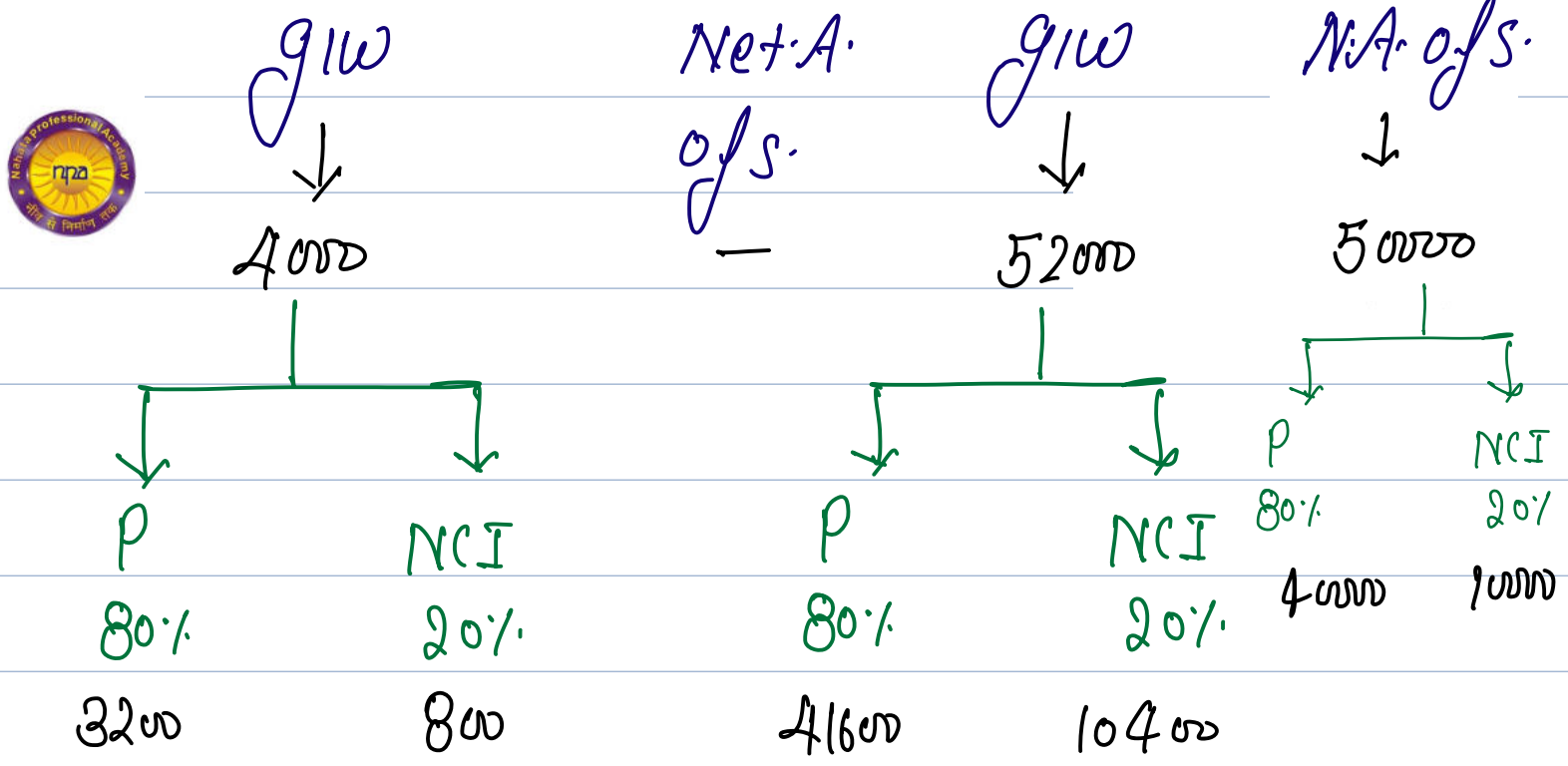
↓ S's CGU

Step 2 Cal^n of I.L.

	A	B	C.
C.A. as on DoI.	600000	550000	450000
G/W (260000 in 2:2:1)	104000	104000	52000
C.A.	704000	654000	502000
R.A.	740000	650000	400000
I.L.	—	4000	102000

Step 3 Allocation of I.L.

B	C.
4000	102000



Step 4 Alcing.

a) I.L. 106000

To GIW (4000 + 52000) 56000

To N.A. 50000

b) P's P/L (32000 + 41600 + 40K) 84800

NCI (8000 + 10400 + 10000) 21200

To I.L. 106000

PQ 8 OF SM, RTP MAY 21 & RTP Nov 23.

On 31 March 20X1, Vision Ltd acquired 80% of the equity shares of Mission Ltd for ₹ 190 million. The fair values of the net assets of Mission Ltd that were included in the consolidated statement of financial position of Vision Ltd at 31 March 20X1 were ₹ 200 million. It is the Group's policy to value the noncontrolling interest in subsidiaries at the date of acquisition at its proportionate share of the fair value of the subsidiaries' identifiable net assets. On 31 March 20X4, Vision Ltd carried out its annual review of the goodwill on consolidation of Mission Ltd and found evidence of impairment. No impairment had been evident when the reviews were carried out at 31 March 20X2 and 31 March 20X3. The review involved allocating the assets of Mission Ltd into three cash- generating units and computing the value in use of each unit. The carrying values of the individual units before any impairment adjustments are given below

	Unit A ₹ in million	Unit B ₹ in million	Unit C ₹ in million
Intangible assets	30	10	-
Property, Plant and Equipment	80	50	60
Current Assets	60	30	40
TOTAL	170	90	100
VALUE IN USE	180	66	104

gw: Unallocable

It was not possible to meaningfully allocate the goodwill on consolidation to the individual cash generating units but all the other net assets of Mission Ltd are allocated in the table shown above. The intangible assets of Mission Ltd have no ascertainable market value but all the current assets have a market value that is at least equal to their carrying value. The value in use of Mission Ltd as a single cash- generating unit on 31 March 20X4 is ₹ 350 million. Discuss and compute the accounting treatment of impairment of goodwill as per Ind AS 36?

Soln:- Step 1 Calⁿ of gw. (₹ in millions)

N.A. of S as on DoA.		200
– Inv. in S.	190	
– NCI @ PSNA (200 × 20%)	40	230
partial gw		30

∵ Q.R.S. So ∴ gw belongs to S's CGU

Calⁿ of Full gw

Partial gIw 80% 30

NCI 20% ?? 7.5

Full gIw. 37.5

∵ gIw is un allocable

∴ 2 Stage I.L. should be done.

Step 2 Cal^{n} of I.L. of Ind. Assets.

N.A.

Step 3 Cal^{n} of max. I.L. of Ind. Assets.

N.A.

Stage I. i.e. R.V.C.A. w/o gIw

Step 4. Cal^{n} of I.L. of CGU w/o gIw

	A	B	C
C.A	170	90	100
R.A.	180	66	104
I.L.	—	24	—

Step 5 Cal^{n} of Rev. C.A.

	A	B	C.
C.A.	170	90	100
- I.L.	—	(24)	—
Rev. C.A.	170	66	100

Stage 2. C.A. with glw

MENTORING HARSHIT DWIVEDI
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

Step 6 Cal^n of I.L. of unallocable glw

Rev. C.A. of CGU	A	170
	B	66
	C	100
		37.5
goodwill	C.A.	373.5
	R.A.	350
	I.L.	23.5

Step 7 Allocation of I.L.

I.L. = 23.5

- glw 23.5
  - P
  - NCI
- N.A. of S.

80% | 20%

18·80 | 4·7

Cannot be recognised.

Step 8 Journal

i) I·L· Dr 18·8
To giw 18·8

ii) P's P/L 18·8
To I L 18·8

iii) I·L· Dr 24
To N·A·of S· 24·

iv) P's P/L (80%) 19·2
NCI (20%) 4·8
To IL 24

HD gift· (not asked)

Step 9. Cal^{n} of Revised C·A· of unit B·

	I·T·A·	PPE	C·A·
C·A·	10	50	30
I·L· (24 in 1:5)	(4)	(20)	-
Rev·C·A·	6	30	30

CFS gIw ⇒ unallocable & allocable.

MENTORING
HARSHIT DWIVEDI
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

Steps to Solve

S.I ⇒ gIw & Fullgiw
S II ⇒ I.L. of Ind.A.
S III ⇒ max.ILoss of Ind.A.

gIw

- Allocable
  - S4 I.L.
  - S5 All. of I.L.
  - S6 AlCing
- Unallocable
  - Stage I
    - S4 IL w/o gIw.
    - S5 Rev.C.A.
  - Stage II
    - S6 IL of GIw.
    - S7 allocat of gIw.
    - S8 AlCing

Question# 26 **ILL 10 OF ICAI SM**

On 1st April 20X1, Venus ltd acquired 100% of Saturn ltd for ₹ 4,00,000. The fair value of the net identifiable assets of Saturn ltd was ₹ 3,20,000 and goodwill was ₹ 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 ₹ 2,12,000.

Suppose by 31st March, 20X5 the government reinstates the licenses of Saturn Ltd. The management expects a favourable 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 ₹ 3,04,000 and net selling price is expected to be ₹ 2,90,000

calculate the impairment loss if any

↓

Same as Q.19.

#9 Captive Consumption

↓

INTER DEPT TRANSFER

↓

If output of one department is input for another department then it will be considered as case of CAPTIVE CONSUMPTION (IDT)

↓

No Q. on it.

Solve all Volume-3 Questions.