

CHAPTER 22

AS 28: IMPAIRMENT OF ASSETS

C 1: OBJECTIVE

1. to prescribe that assets are carried at no more than their recoverable amount.
2. to reverse an impairment loss and
3. to prescribes certain disclosures for impaired assets.

C 2: SCOPE

Applied for the impairment of all assets, other than:

1. inventories;
2. assets arising from construction contracts
3. financial assets, including investments that are included in the scope of AS 13;
4. deferred tax assets

C 3: Identifying Impairment

1. Assess at each balance sheet date
 - ⇒ whether any indication that an asset may be impaired.
2. If any such indication exists,
 - ⇒ estimate the recoverable amount.
3. If no indication
 - ⇒ Do nothing
4. Consider, as a minimum, the following indications:
 - (A) External sources of information**
 - (i) market value has declined significantly;
 - (ii) significant changes with an adverse effect
 - ⇒ in the technological, market, economic or legal environment
 - ⇒ in which the enterprise operates or in the market to which an asset is dedicated;
 - (iii) market interest rates or other market rates of return on investments have increased;
 - (iv) the carrying amount of the net assets is more than its market capitalisation;
 - (B) Internal sources of information**
 - (i) obsolescence or physical damage;
 - (ii) significant changes with an adverse effect
 - ⇒ in the extent to which, or manner
 - ⇒ in which, an asset is used or is expected to be used.
 - (iii) evidence from internal reporting
 - ⇒ indicates that the economic performance is, or will be, worse than expected.

C 4: Measurement Of Recoverable Amount

Recoverable amount is the higher of

- (i) an asset's net selling price and
- (ii) its value in use.

1. if either of these amounts exceeds the asset's carrying amount,
 - ⇒ the asset is not impaired and it is not necessary to estimate the other amount.
2. Recoverable amount is determined for an individual asset,
 - ⇒ unless the asset does not generate cash inflows from continuing use
 - ⇒ that are largely independent of those from other assets or groups of assets.

C5: Net Selling Price

1. net selling price is a price in a binding sale agreement in an arm's length transaction,
 - ⇒ adjusted for incremental costs directly attributable to the disposal of the asset.
2. If no binding sale agreement but an asset is traded in an active market,
 - ⇒ net selling price is market price less the costs of disposal.
3. If there is no binding sale agreement or active market for an asset,
 - ⇒ net selling price is the amount that an enterprise could obtain,
 - ⇒ at the balance sheet date,
 - ⇒ for the disposal of the asset in an arm's length transaction between knowledgeable, willing parties,
 - ⇒ after deducting the costs of disposal.
4. Net selling price does not reflect a forced sale,
 - ⇒ unless management is compelled to sell immediately.
5. Costs of disposal,
 - ⇒ are legal costs, costs of removing the asset, and
 - ⇒ direct incremental costs to bring an asset into condition for its sale.

C 6: Value In Use

Value in use

- ⇒ is the present value of estimated future cash flows
- ⇒ expected to arise from the continuing use of an asset and
- ⇒ from its disposal at the end of its useful life.

Estimating the value in use of an asset involves the following steps:

- (i) estimating the future cash inflows and outflows arising from continuing use of the asset and from its ultimate disposal; and
- (ii) applying the appropriate discount rate to these future cash flows.

C 7: Foreign Currency Future Cash Flows

1. 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.
2. translates the present value obtained
 - ⇒ using the exchange rate at the balance sheet date.

C 8: DISCOUNT RATE

1. should be a pre tax rate
 - ⇒ that reflect current market assessments of
 - ⇒ the time value of money and
 - ⇒ the risks specific to the asset.
2. As a starting point, take into account the following rates:
 - (i) the enterprise's weighted average cost of capital determined using
 - (ii) techniques such as the Capital Asset Pricing Model;
 - (iii) the enterprise's incremental borrowing rate; and
 - (iv) other market borrowing rates.

C 9: Recognition And Measurement Of An Impairment Loss

1. Excess of carrying amount over recoverable amount
 - ⇒ is an impairment loss.
2. recognised as an expense in the statement of profit and loss immediately,
 - ⇒ impairment loss of a revalued asset should be treated as a revaluation decrease.
3. if impairment loss is greater than the carrying amount of the asset ,recognise a liability if, and only if, that is required by another A.S.
4. After the recognition of an impairment loss,
 - ⇒ depreciation (amortisation) should be adjusted to allocate
 - ⇒ the asset's revised carrying amount, less its residual value (if any),
 - ⇒ on a systematic basis over its remaining useful life.
5. If an impairment loss is recognised,
 - ⇒ any related deferred tax assets or liabilities are determined under AS 22.

C 10: Cash-Generating Units

Cash generating unit (CGU)

- ⇒ is the smallest identifiable group of assets
- ⇒ that generates cash inflows from continuing use
- ⇒ that are largely independent of the cash inflows from other assets or groups of assets.

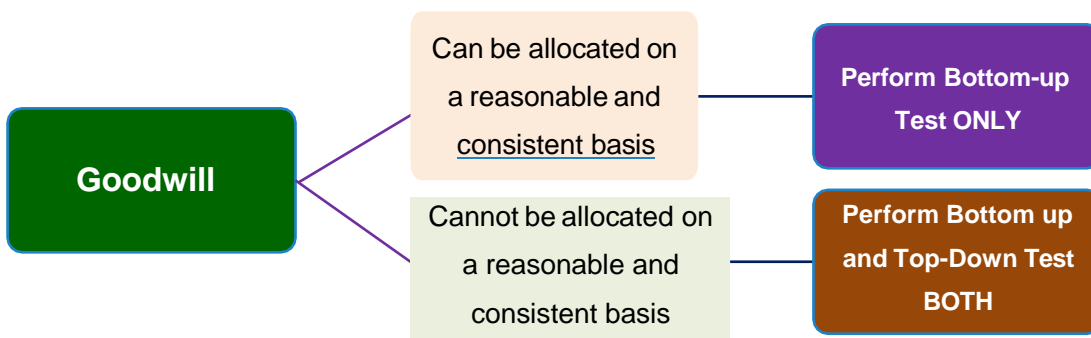
Identification of the CGU to Which an Asset Belongs

1. recoverable amount should be estimated for the individual asset.
2. If it is not possible to estimate the recoverable amount of the individual asset,
 - ⇒ determine the recoverable amount of the CGU to which the asset belongs.
3. If an active market exists for the output produced by an asset or a group of assets,
 - ⇒ this asset or group of assets should be identified as a separate CGU,
 - ⇒ even if some or all of the output is used internally.

C11: Recoverable Amount And Carrying Amount Of A CGU

1. The recoverable amount of a **CGU** is the higher of the CGU's
 - ⇒ net selling price and
 - ⇒ value in use.
2. The carrying amount of a CGU:
 - (i) includes the carrying amount of only those assets
 - ⇒ that can be attributed directly, or allocated on a reasonable and consistent basis, to the CGU and
 - ⇒ that will generate the future cash inflows estimated in determining the CGU's value in use; and
 - (ii) does not include the carrying amount of any recognised liability,
 - ⇒ unless the recoverable amount of the CGU unit cannot be determined without consideration of this liability.

CONCEPT 12: GOODWILL



- Bottom-upTest** ⇒ test on individual basis
- Top down test** ⇒ test on overall basis

C13: 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 CGU.

- ⇒ include group or divisional assets such as the building of a headquarters or a division of the enterprise, EDP equipment or a research centre.
1. they do not generate cash inflows independently from other assets or groups of assets and their carrying amount cannot be fully attributed to the CGU under review.
 2. identify all the corporate assets that relate to the CGU under review.
 3. For each identified corporate asset, then apply:
 - (i) if the carrying amount of the corporate asset can be allocated on a reasonable basis,
⇒ apply the 'bottom-up' test only; and
 - (ii) if the carrying amount of the corporate asset cannot be allocated on a reasonable
⇒ apply both the 'bottom-up' and 'top-down' tests.

C 14: Impairment Loss For Cash-Generating Unit

1. The impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:
 - (i) first, to goodwill allocated to the cash-generating unit (if any); and
 - (ii) then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit.
2. In allocating an impairment loss, the carrying amount of an asset should not be reduced below the highest of:
 - (i) its net selling price (if determinable);
 - (ii) its value in use (if determinable); and
 - (iii) zero.
3. The amount of the impairment loss
 - ⇒ that would otherwise have been allocated to the asset
 - ⇒ should be allocated to the other assets of the unit on a pro-rata basis.
4. For Balance impairment loss after allocations to the assets,
 - ⇒ a liability should be recognised for any remaining amount of an impairment loss for a CGU
 - ⇒ if that is required by another Accounting Standard.

C15: Reversal Of Impairment Loss

1. Assess at each balance sheet date
 - ⇒ whether there is any indication
 - ⇒ that an impairment loss recognised for an asset
 - ⇒ in prior accounting periods
 - ⇒ may no longer exist or may have decreased.
2. If any such indication exists,
 - ⇒ estimate the recoverable amount of that asset.
3. Indications:

External sources of information

- (i) the asset's market value increased significantly;

(ii) significant changes with a favourable effect

⇒ in the technological, market, economic or legal environment

⇒ in which the enterprise operates or in the market to which the asset is dedicated;

(iii) market interest rates or other market rates of return on investments is decreased;

Internal sources of information

(i) significant changes with a favourable effect

⇒ in the extent to which, or manner in which, the asset is used or is expected to be used.

(ii) evidence is available from internal reporting

⇒ that indicates that the economic performance of the asset is, or will be, better than expected.

C 16: Reversal Of An Impairment Loss For An Individual Asset

1. Reversal of an impairment loss

⇒ Carrying amount of the asset should be

⇒ increased to its recoverable amount.

2. Increased carrying amount

⇒ due to a reversal of an impairment loss

⇒ should 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 accounting periods.

3. A reversal of an impairment loss for an asset should be recognised

⇒ as income immediately in the statement of profit and loss,

⇒ unless the asset is carried at revalued amount in accordance with AS 10

⇒ in which case any reversal of an impairment loss on a revalued asset should be treated as a revaluation increase under that Accounting Standard.

4. After a reversal of an impairment loss is recognised,

⇒ the depreciation (amortisation) charge for the asset should be adjusted in future periods

⇒ to allocate the asset's revised carrying amount, less its residual value (if any),

⇒ on a systematic basis over its remaining useful life.

C 17: Reversal Of An Impairment Loss For CGU

1. A reversal of an impairment loss for a CGU

should be allocated to increase the carrying amount of the assets of the unit in the following order:

(i) first, assets other than goodwill on a pro-rata basis based on the carrying amount of each asset in the unit; and

(ii) then, to goodwill allocated to the CGU (if any), if the requirements in C 18 are met.

2. These increases in carrying amounts should be treated as reversals of impairment losses for individual assets and recognised.

3. In allocating a reversal of an impairment loss for a CGU, the carrying amount of an asset should

not be increased above the lower of:

- (a) its recoverable amount (if determinable); and
- (b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior accounting periods.

4. The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the unit on a pro-rata basis.

C 18: Reversal Of Impairment Loss For Goodwill

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.

C 19: Impairment Of Discontinuing Operations

The approval and announcement of a plan for discontinuance

- ⇒ is an indication that the assets attributable to the discontinuing operation
- ⇒ may be impaired or that an impairment loss previously recognised for those assets should be increased or reversed.

Therefore

- ⇒ estimates the recoverable amount of each asset of the discontinuing operation and
- ⇒ recognises an impairment loss or reversal of a prior impairment loss, if any.

C 20: Disclosure

For each class of assets, the financial statements should disclose:

- (i) impairment losses recognised in the statement of profit and loss during the period
- (ii) reversals of impairment losses recognised in the statement of profit and loss during the period
- (iii) impairment losses recognised directly against revaluation surplus during the period; and
- (iv) reversals of impairment losses recognised directly in revaluation surplus during the period.

C21: Transitional Provisions

1. On the date of this Standard becoming mandatory,
 - ⇒ assess whether there is any indication that an asset may be impaired.
2. If any such indication exists,
 - ⇒ determine impairment loss, if any.
3. The impairment loss, so determined,
 - ⇒ should be adjusted against opening balance of revenue reserves
 - ⇒ if impairment loss is on a revalued asset adjust against revaluation reserve.