Illustration 1

Illustration 2

Illustration 3

Illustration 4

Illustration 12

Illustration 13

Practical 13

Practical 14

Practical 4

Practical 5

Practical 6

Practical 7

Practical 8

Practical 9

Practical 10

Practical 12

Illustration 20

Illustration 7

Illustration 10

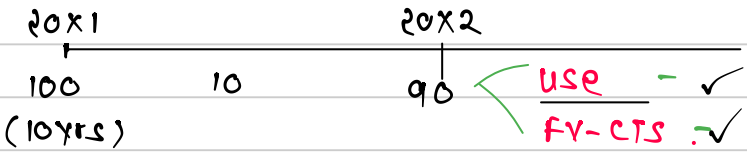
36. Impairment of Asset.

Reduction in value of Asset

- Covered
  - PPE
  - Intangible Asset
  - Investment Property
- Not covered
  - Inventory

- Individual Asset
  - Creation of Impairment loss
  - Reversal of Impairment loss
- Cash Generating Unit
  - Creation of Impairment loss
  - Reversal of Impairment loss
- Corporate Asset

Yrs	CF	DF	PV
1-9	15		✓



Carrying Amt		90	90
Recoverable Amt			
a) VIU	70		
b) FV-CTs	80	80	95
		10	~~5~~ -
		Impairment loss.	No impairment loss

Illustration 1

a) CA 300

b) RA

i) VIU 250

ii) FV-CTS 238 (250)

Impairment loss 50

Illustration 2

a) CA 40 m

b) RA

- VIU 36
- FV-CTS xx 36 m

Impairment loss 4 m

Illustration 3

1. IL 31-3-X4

a) CA		12687
b) RA		
i) VIU	9513	
ii) FV-CTS	10,000	(10,000)
Impairment loss		2687

(WN1) CA on 31-3-X4

CA 1-4-X1	20,000
Less: Depn (3 yrs) $\left(\frac{20,000-500}{8} \times 3 \text{ yrs}\right)$	(7313)
	12687

(WN2) VIU:

Year	Cash Flows	P.V.	Amount
20X4-20X5	2,000	.870	1,740
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	1,243
Total			**9,513**

2. Revised CA:

CA 31-3-X4	12687	
IL	(2687)	
Revised CA 31-3-X4	10,000	(5 yrs)

3. Revised depn:

$$\frac{10,000 - 500}{5} = 1900$$

Illustration 4

1. IL

a) CA 250

b) RA

i) VIU 200

ii) FV-CTS (200 - 13) 187 (200)

Impairment loss (P/L) 50

Illustration 12

1. **IL**

a) CA 27.3

b) RA

i) VIU
ii) FV-CTS } 12

Impairment loss (PIL) 15.3

{ Asset 14 / To RR 14 }

2. **Treatment of IL:**

RR	14	
PIL	1.3	15.3-14
	15.3	

IL 15.3
To Asset 15.3

RR 14
PIL 1.3
To IL 15.3

3. **Depn:**

CA: 12

$\frac{12-0}{3} = 4$

Illustration 13

1. IL

a) CA		500
b) RA		
i) VIU	400	
ii) FV-CTS	375	400
Impairment loss (PIL)		100

2. JE:

IL		100	PIL		100
To Asset		100	To IL		100

Practical 13

1. IL 31-3-X6

a) CA		660,000	
b) RA			
i) VIU	588230		(WN-1)
ii) FV-CTS	504000	588230	(600,000 - 96000)
Impairment loss (P/L)		71770	

(WN-1) VIU:

Year ended	Cash flow ₹	Discount factor @ 9%	Amount ₹
31st March, 20X7	2,76,000	0.9174	2,53,202
31st March, 20X8	1,92,000	0.8417	1,61,606
31st March, 20X9	1,20,000	0.7722	92,664
31st March, 20Y0	1,14,000	0.7084	80,758
		Total (Value in Use)	**5,88,230**

2. Revised depn:

CA 588230

Depn: $\frac{588230 - NIL}{4} = 147058$

3. Treatment of IL:

RR		36000
P/L		35770
Impairment loss (P/L)		71770

4. **Treatment of Government compensation:**

Any compensation by government would be accounted for as such when it becomes receivable. At this time, the government has only stated that it may reimburse the company and therefore credit should not be taken for any potential government receipt.

Practical 14

1st Jan : Year 1 :	Purchase Cost	240,000	(20yrs)
	Depn (2yrs) $\left(\frac{240,000 - NIL}{20}\right) \times 2$	(24000)	(2yrs)
1st Jan Year 3	CA.	216000	
	RR	34000	
1st Jan Year 3	Revised CA	250,000	(18 yrs)
	Depn (1 year) $\left(\frac{250,000 - NIL}{18}\right)$	(13889)	(1 year)
1st Jan Year 4	CA	236111	
	Impairment loss		
	CA : 236111		
	RA : 100,000	(136111)	
1st Jan Year 4	CA	100,000	(17 ~~years~~)
	Depn $\left(\frac{100,000 - NIL}{10}\right)$	10,000	10 years.

Practical 6

1-4-X0	Purchase cost	100	(4yrs)
	Depn $\left(\frac{100-0}{4}\right)$	(25)	
31-3-X1	CA	75	(3yrs)
	IL		
	CA : 75		
	RA: 60	(15)	
31-3-X1	Revised CA	60	(3yrs)
	Depn $\left(\frac{60-0}{3}\right)$	(20)	
31-3X2	CA	40	(2yrs)
	IL		
	CA : 40		
	RA: 40	-	
31-3X2	CA	40	(2yrs)
	Depn $\left(\frac{40-0}{2}\right)$	(20)	
31-3-X3	CA	20	(1yr)
	* IL		
	CA : 20		
	RA: 28		
	Reversal 8		
	maximum Reversal possible 5 (20-25)		
	lower of Above	5	
	Revised CA	25	

CA on 31-3-X3 (IF NO IL)

	Purchase cost	100
↳	Depn (3yrs) $\left(\frac{100-0}{4}\right) \times 3$	(75)
		25

Practical 4

1. IL 31-3-X2.

a) CA		80	(WN-1)
b) RA			
i) VIU	75.31		(WN-2)
ii) FV-CTS	70	75.31	
Impairment loss (P/L)		4.69	

(WN-1) CA 31-3-X2:

1-4-X1	Purchase cost	100	(5 yrs)
	Depn $\left(\frac{100-0}{5}\right)$	(20)	
31-3-X2	CA	80	(4 yrs)

(WN-2) VIU:

Financial year	Estimated cash flows (₹ in crore)	Present value factor @ 10%	Present value
20X2-20X3	15	0.9091	13.64
20X3-20X4	30	0.8264	24.79
20X4-20X5	40	0.7513	30.05
20X5-20X6	10	0.6830	6.83
			75.31

Practical 5

1. IL 31-3-X3

a) CA		56.48	(W N-1)
b) RA			
i) VIU	67.84		(W N-2)
ii) FV-CTS	40	67.84	
		11.36 ←	NOT Reversal of IL.

(W N-1) 31-3-X3 :

31-3-X2	CA	(80 - 4.69)	75.31	(4 yrs)
	Dppn $\left(\frac{75.31-0}{4}\right)$		18.83	
31-3-X3	CA		56.48	(3 yrs)

(W N-2) VIU :

Financial year	Estimated cash flows (₹ in crore)	Present value factor @ 10%	Present value
20X3-20X4	30	0.9091	27.27
20X4-20X5	40	0.8264	33.06
20X5-20X6	10	0.7513	7.51
			67.84

Practical 7

Year	Cash flows (US $)	Present value factor @ 10%	Discounted cash flows (US $)
20X1-20X2	80	0.9091	72.73
20X2-20X3	100	0.8264	82.64
20X3-20X4	20	0.7513	15.03
Total Discounted cash flows in US $			170.40
Exchange rate as on 31st March, 20X1, i.e., date of calculating value in use			₹ 45/US $
Value in use as on 31st March, 20X1			₹ 7,668

Year	CF	DF	PV
	$	$	$
			× Exchange Spot
VIU			₹

Practical 8

100 10%
200 60%
300 30%

220.

Cash flows	Probability	Expected cash flow
100	10%	10
200	60%	120
300	30%	90
Total		220

The expected cash flow is ₹ 220.

Practical 9

Year	Cash flows	P.V.F.	Present value	Probability	Expected cash flows
1	1,000	0.95238	952.38	10%	95.24
2	1,000	0.90273	902.73	60%	541.64
3	1,000	0.85161	851.61	30%	255.48
Total					892.36

The expected present value is ₹ 892.36.

Practical 10

10. (a) the estimated expected cash flow is ₹ 150 [(50 + 250)/2].

(b) the estimated expected cash flow is ₹ 133.33 [(50 + 100 + 250)/3].

(c) the estimated expected cash flow is ₹ 140 [(50 × 0.10) + (250 × 0.30) + (100 × 0.60)].

Ind AS 36 RTP NOV 19

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

- The machine was purchased on 1st April, 20X1 at a cost of ₹ 500 000 through a vendor financing arrangement on which interest is being charged at the rate of 10 per cent per annum.

Hire Purchase

- During the year ended 31st March, 20X3, East sold 10 000 steering wheels at a selling price of ₹ 190 per wheel.

Past Data

- The most recent financial budget approved by East's management, covering the period 1st April, 20X3 – 31st March, 20X8, including that the company expects to sell each steering wheel for ₹ 200 during 20X3-X4, the price rising in later years in line with a forecast inflation of 3 per cent per annum.

Future Data 5 years SP

- During the year ended 31st March, 20X4, East expects to sell 10 000 steering wheels. The number is forecast to increase by 5 per cent each year until 31st March, 20X8.

Units

- East estimates that each steering wheel costs ₹ 160 to manufacture, which includes ₹ 110 variable costs, ₹ 30 share of fixed overheads and ₹ 20 transport costs.

CPU

- Costs are expected to rise by 1 per cent during 20X4-X5, and then by 2 per cent per annum until 31st March, 20X8.
- During 20X5-X6, the machine will be subject to regular maintenance costing ₹ 50,000.
- In 20X3-X4, East expects to invest in new technology costing ₹ 100 000. This technology will reduce the variable costs of manufacturing each steering wheel from ₹ 110 to ₹ 100 and the share of fixed overheads from ₹ 30 to ₹ 15 (subject to the availability of technology, which is still under development).

ignore as no commitment

- East is depreciating the machine using the straight line method over the machine's ~~10~~ 8 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, 20X8.
- East has determined a pre-tax discount rate of 8 per cent, which reflects the market's assessment of the time value of money and the risks associated with this asset.

Assume a tax rate of 30%. What is the value in use of the machine in accordance with Ind AS 36?

ignore

1. Calculation of value in use:

	Particulars	X3-X4	X4-X5	X5-X6	X6-X7	X7-X08
+3%	Selling Price p.u.	200	206	212	218	225
(1,2%)	Cost per unit.	(160)	(162)	(165)	(168)	(171)
	Profit p.u	40	44	47	50	54
+5%	x No of units	x 10,000	x 10500	x 11025	x 11576	x 12155
	Total Profit	400,000	462000	518175	578800	656370
	- Regular maintenance			(50,000)		
	+ Salvage value					80,000
	Cash Inflow	400,000	462000	468175	578800	736370
	x Discount@8%	x 0.9259	x 0.8573	x 0.7938	x 0.7350	x 0.6806
	Present value	370360	396073	371637	425418	501173

∴ Total value in use = 2064661

As per IND AS 36, the value use calculation shall not include following

1. Cash flow from financing: 10 % interest on vendor financing is ignored
2. Income Tax: Tax rate of 30% is ignored
3. New technology: Cost 1,00,000 and cash inflows from new technology are ignored as new technology has not been developed yet.
4. Past cash inflows: Inflows of X2-X3 is ignored

CGU Goodwill

Illustration 20

Par	CGU	Goodwill	Total
CA (1-4-X1)	1000	200	1200
(-) Depn $\left(\frac{1000-0}{10} \times 1\right)$	(100)	-	
CA (31-3-X2)	900	200	1100
(-) Impairment loss	(300)	(200)	500
CA: 1100	(500-200)		
RA: (600)			
IL 500			
(1st : Goodwill)			
CA (31-3-X2)	600	-	600

Illustration 7

Par	CGU 1	CGU 2	Total
Pur consideration	33	17	50m
Net Asset (FV)	(25)	(10)	(35m)
Goodwill	8	7	15m

Illustration 10 Reversal of CGU

Particulars		Assets	Goodwill	Total
CA (1-4-X1) (20 yrs)		320,000	80,000	400,000
↳ Depreciation (2 years) ($\frac{320,000 - NIL}{20} \times 2$)		(32000)		
CA (31-3-X3) (18 years)		288000	80,000	368000
↳ Impairment loss:		(76000)	(80,000)	(156000)
CA 368000		(156000 - 80,000)		
RA (212000)				
156000				
CA (31-3-X3) (18 years)		212000	-	212000
↳ Depn (2 years) ($\frac{212000 - NIL}{18} \times 2$)	Round OFF	(24000)		
		23556		
CA (31-3-X5) (16 years)		188000	-	188000
+ Reversal of Impairment:		68000	-	68000
CA 188000				
RA				
1) VIU : 304000				
2) FV : 290000 304000				
Reversal 116000				
maximum limit 68000				
CA - CA (WN1) without IL				
188000 - 256000				
lower of Above 68000				
CA (31-3-X5) (16 years)		256000	-	256000
↳ Dep ($\frac{256000 - NIL}{16}$)		(16000)		
CA (31-3-X6)		240,000	-	240,000

(WN-1) CA without IC:

CA (1-4-X1)	(20 yrs)	320,000
↳ Depreciation (2 years)		(64000)
$\left(\frac{320,000 - NIL}{20} \times 4\right)$		
CA (31-3-X5)	(16 years)	256000 .

Practical 11 Reversal of CGU

(WN-1) Machine A (CA on 31-3-18)

CA (1-4-13)	10,00,000	(10 yrs)
(-) Depn (5 years) $\left(\frac{10L - 50,000}{10}\right) \times 5$	(475000)	
CA (31-3-18)	525000	(5 yrs)

(WN-2) Machine B (CA on 31-3-18)

CA (1-4-15)	500,000	(10 years)
(-) Depn (3 years) $\left(\frac{500,000 - NIL}{10}\right) \times 3$	(150,000)	
CA (31-3-18)	350,000	(7 years)

(WN-3) VIU of machine A on 31-3-18

Period	Cash Flows (₹)	10% PVF	PV
1	1,50,000	0.909	1,36,350
2	1,00,000	0.826	82,600
3	1,00,000	0.751	75,100
4	1,50,000	0.683	1,02,450
5	1,00,000	0.621	62,100
5	50,000	0.621	31,050
Value in use			**4,89,650**

(WN-4) FV less CTS of machine A on 31-3-X8

FV	700,000
CTS	(250,000) (150,000 + 25000 + 75000)
	450,000

(WN-5) Maximum IL on machine A on 31-3-X8

CA	525000	(VIU 489650 or FV-CTS 450,000)
RV	(489650)	
	35350	

1. Impairment loss:

Particulars	A (5)	B (7)	GW	Inventory	Total
CA (31-3-18)	525000	350,000	150,000	200,000	1225000
Impairment loss:	(35350)	(39650)	(150,000)	-	(225000)
CA 1225000 / RA 10,00,000 / 225000					
CA (31-3-18)	489650	310350	-	200,000	10,00,000

(WN-6) Allocation of IL:

225000

Inventory	Goodwill	Balance
x	150,000	75000

875000 → 525000 : 350,000

IL	A	B
Allocated	45000	X 30,000
maximum limit	35350	↓
lower of above	35350	75000 - 35350 = 39650.

2. Prospective Depreciation:

Particulars	A (5)	B (7)	GW	Inventory	Total
CA (31-3-18)	489650	310350	-	200,000	10,00,000
(-) Depreciation:	(87930)	(44336)			
	A: (489650 - 50,000)/5	B: (310350 - NIL)/7			
CA (31-3-19)	401720	266014	-	200,000	867704

CA	867704	+ 42296	910,000
RA	1100,000		
Reversal	232296		
maximum	62296		

CA: − CA
867704 − 930,000

62296

Particulars	A (5)	B (7)	G/W	Inventory	Total
CA (31-3-18)	525000	350,000		200,000	1225000
(−) Depn	(95000)	(50,000)			
	525000 − 50K / 5	350,000 − 0 / 7			
31-3-19	430,000	300,000	2L		930,000

CGU Corporate Asset

Illustration 8