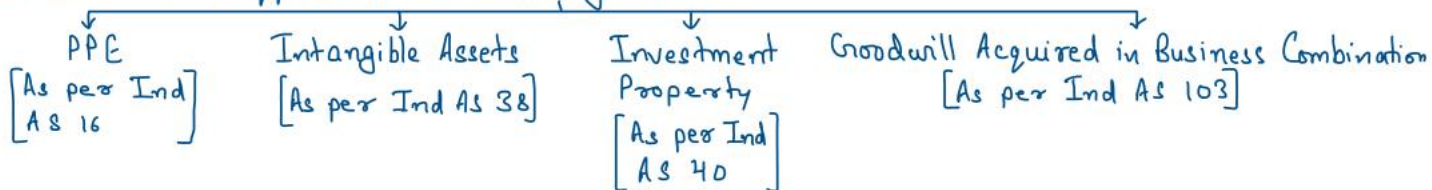


Introduction to Ind AS 36

- Impairment of Assets means decline in value of assets due to changes in technological or legal environment or physical damage of asset.
- This Ind AS is applicable to following Assets :



Recognition & Measurement of Impairment Loss [IL] on an Individual Asset

Steps to be followed for Calculation & Recognition of Impairment Loss on Individual Asset :

Step 1 : Identify whether the Asset is Impaired [Impairment Testing]

Asset is impaired if its Carrying Amount > Recoverable Amount

Step 2 : Calculate Impairment Loss

Impairment Loss = Carrying Amount - Recoverable Amount

Step 3 : Recognition of Impairment Loss

- Impairment Loss is generally recognised in P&L

↓

However, If there is any balance in Revaluation Surplus [OCI] relating to Impaired Asset, then Impairment Loss is firstly recognised in Revaluation Surplus [OCI] upto any balance existing in it.

- Journal Entry :

(i) Impairment Loss Alc	xxx	
To Asset Alc		xxx
(ii) Revaluation Surplus [OCI] Alc	upto Balance in this Alc	
P&L Alc	Balancing figure	
To Impairment Loss Alc		xxx

Step 4 : Revised Carrying Amount [RCA]

RCA = Carrying Amount after Impairment Loss is charged
 = Carrying Amount before Impairment Loss - Impairment Loss

* Depreciation will be charged on this RCA in future

Note :-

- (i) When Impairment Testing needs to be done :



Intangible Assets which are not amortised

[Example: Goodwill acquired in Business Combination]

↓

Impairment Testing should be done Annually

Impairment Testing should be done if there are any indications that asset is Impaired

[Example: Changes in technological or legal environment or physical damage of asset]

(ii) Recoverable Amount :

→ Recoverable Amount of an asset is Higher of $\left\{ \begin{array}{l} \text{Fair Value Less Cost to Sell [FVLCTS]} \\ \text{Value in Use} \end{array} \right.$

(a.) Fair Value Less Cost to Sell [FVLCTS] or Fair Value Less Cost to disposal

Fair Value as per Ind AS 113 (Market Value) xxx

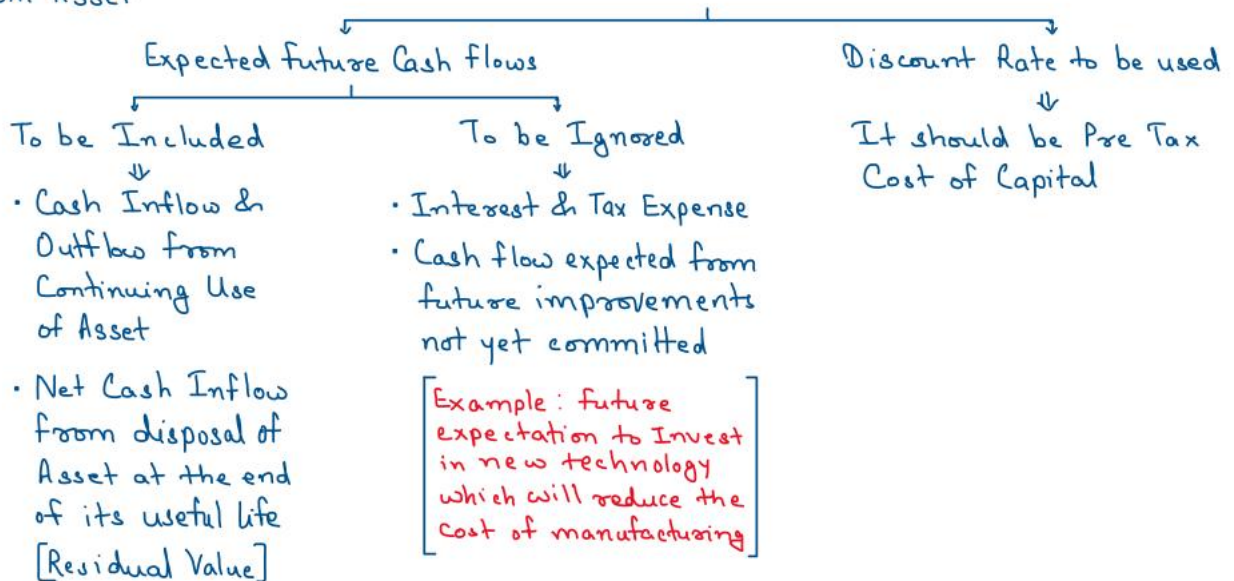
(-) Cost to sell / disposal (Transaction Cost i.e. Selling Expenses like

Dismantling cost, Packaging Cost, Legal fees, etc.) (xxx)

FVLCTS xxx

(b) Value in Use

► Value in Use is the Present Value of future cash flows expected to be derived from Asset



► If Cash flows are in foreign currency, then Present Value of Cash flows is calculated by discounting the foreign currency cash flows using foreign currency discounting rate

↓

And then Convert such Present Value in Functional Currency using Spot Exchange Rate on the date of Value in Use Calculation

→ If FVLCTS of an asset is not available, then Value in Use is considered as Recoverable Amount

→ If Value in Use of an asset is not available, then Recoverable Amount of such asset cannot be determined [i.e. Impairment of such asset will be done in CGU]

Example 1:

A Ltd. purchased a PPE for ₹ 1,00,000 on 1st April 20X1. Its useful life is 10 years. On 31st March 20X3, A Ltd. estimates the FVLCTS & Value in Use of PPE as ₹ 65,000 & ₹ 72,000 respectively.

Calculate the Impairment Loss, Revised Carrying Amount & Subsequent Depreciation p.a. thereon.

Solution:

Step 1: Impairment Testing

Carrying Amount as on 31st March 20X3:

Carrying Amount on 1 st April 20X1	1,00,000
(-) Depreciation for 2 years $\left[\frac{1,00,000}{10} \times 2\right]$	(20,000)
	<u>80,000</u>

Recoverable Amount on 31st March 20X3 is Higher of ₹ 65,000 & ₹ 72,000, i.e. ₹ 72,000

Since Carrying Amount > Recoverable Amount; Impairment Loss is there.

Step 2: Impairment Loss = 80,000 - 72,000 = ₹ 8,000

Step 3: Journal Entry

Impairment Loss A/c (P&L)	8,000	
To PPE A/c		8,000

Step 4: Revised Carrying Amount = 80,000 - 8,000 = ₹ 72,000

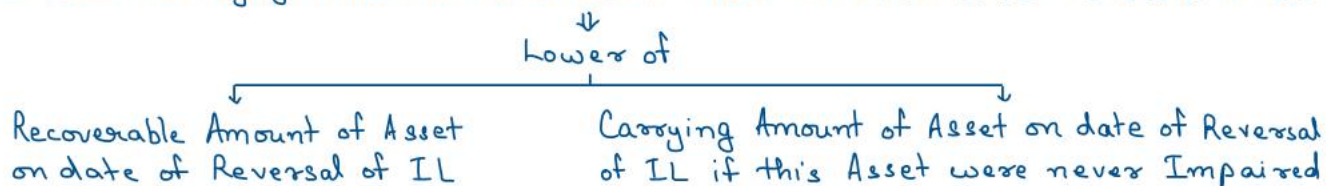
Subsequent Depreciation p.a. from 3rd year onwards = $\frac{₹ 72,000}{8 \text{ years}}$ = ₹ 9,000 p.a.

Reversal of Impairment Loss on Individual Asset

- Impairment Loss recognised on an asset in earlier years can be reversed if on date of reversal its Carrying Amount < Recoverable Amount
- Steps to be followed for Reversal of Impairment Loss on Individual Asset:

Step 1: Calculate Carrying Amount of Asset on date of reversal of Impairment Loss

Step 2: Calculate Carrying Amount at which asset should be shown after reversal of IL



Step 3: Calculate Amount of Reversal of Impairment Loss

⇒ Step 2 - Step 1

Step 4: Recognition of Reversal of Impairment Loss

→ Reversal of Impairment Loss is generally recognised in P&L

↓
However, If Impairment Loss is recognised in Revaluation Surplus [OCI] in earlier years, then Reversal of Impairment Loss is firstly recognised in Revaluation Surplus [OCI] upto Impairment Loss recognised in Revaluation Surplus [OCI] in earlier years.

→ Journal Entry

(i) Asset Alc	xxx	
To Impairment Loss Reversal Alc		xxx
(ii) Impairment Loss Reversal Alc	xxx	
To Revaluation Surplus [OCI] Alc		upto IL recognised in earlier years
To P&L Alc		Balancing figure

Step 5: Revised Carrying Amount [RCA]

RCA = Carrying Amount after Reversal of IL

= Carrying Amount before Reversal of IL + Reversal of IL

* Depreciation will be charged on this RCA in future

Note: If Recoverable Amount of asset becomes higher than Carrying Amount only due to unwinding of discount on future cash flows (i.e. Value in Use), then Impairment Loss cannot be reversed.

Example 2:

In Continuation to Example 1; On 31st March 20x6, Recoverable Amount of PPE is estimated to be ₹ 51,000.

Calculate Reversal of IL, Revised Carrying Amount & Subsequent Depreciation p.a. thereon.

Solution:

Step 1: Carrying Amount on 31st March 20x6

Carrying amount on 31 st March 20x3 after charging IL	72,000
(-) Depreciation for 3 Years $\left[\frac{72,000}{8} \times 3 \right]$	(27,000)
	<u>45,000</u>

Step 2: Carrying Amount at which PPE should be shown on 31st March 20x6

Recoverable Amount = ₹ 51,000	Carrying Amount on 31.3.20x6 if PPE were never impaired Carrying Amount on 1.4.20x1	1,00,000
	(-) Depreciation for 5 Years $\left[\frac{1,00,000}{10} \times 5 \right]$	(50,000)
		<u>₹ 50,000</u>
	↑ Lower, i.e. ₹ 50,000	

Step 3: Reversal of IL = $50,000 - 45,000 = ₹ 5,000$

Step 4: Journal Entry

PPE Alc	5,000	
To IL Reversal Alc (P&L)		5,000

Step 5: Revised Carrying Amount on 31.3.20x6 = $45,000 + 5,000 \Rightarrow ₹ 50,000$

Subsequent Depreciation p.a. from 6th Year onwards = $\frac{₹ 50,000}{5 \text{ years}} = ₹ 10,000 \text{ p.a.}$

Recognition & Measurement of Impairment Loss [IL] on Cash Generating Unit [CGU]

(i) Cash Generating Unit [CGU] :-

- Sometimes Recoverable Amount of Individual Asset cannot be determined because that asset cannot generate independent cash flows from which Value in Use is calculated.

↓

So, Impairment of such asset will be done in CGU

- CGU is the smallest group of assets which are capable of generating independent cash flows.

Example 3:

A Ltd. (Juice Company) prepares juice concentration by using Machine 1 & Pack it in the bottles for sale by using Machine 2.

Here, Machine 1 & 2 cannot generate independent cash flows for the business.

Hence, they should be clubbed together as a CGU for Impairment Testing because they can generate independent cash flows together.

- Goodwill acquired in Business Combination & Corporate Assets [Eg: Office Building] cannot be tested for impairment individually because they cannot generate independent cash flows.

Since Goodwill & Corporate Assets contribute Other Assets in generating cash flows

↓

So, Impairment of Goodwill & Corporate Assets will be done in CGU only

Note: Allocation of Goodwill & Corporate Assets to multiple CGUs for Impairment Testing:

- Goodwill & Corporate Assets are allocated to multiple CGUs on the basis/ratio given in question.
- If question ask to allocate on "Pro rata basis", then Allocate these to multiple CGUs in [Carrying Amount of Other Assets in CGU × Useful life of CGU] Ratio of each CGU.
- There may be some Unallocable Goodwill or Corporate Asset which will be tested for impairment in a different manner.

(2) Steps to be followed for Calculation & Recognition of Impairment Loss on CGU:

Step 1: Identify whether the CGU is Impaired [Impairment Testing]

CGU is impaired if its Carrying Amount > Recoverable Amount

- Calculation of Carrying Amount of CGU \Rightarrow

Carrying Amount of PPE in CGU	xxx
Carrying Amount of Intangible Asset in CGU	xxx
Carrying Amount of Current Asset [Eg: Inventory] in CGU	xxx
Carrying Amount of Goodwill allocated to CGU	xxx
Carrying Amount of Corporate Asset allocated to CGU	xxx
	xxx

Step 2: Calculate Impairment Loss

Impairment Loss = Carrying Amount of CGU - Recoverable Amount of CGU

\downarrow

This Impairment Loss will be borne by Assets in CGU as following:

- firstly, By Goodwill [Upto Carrying Amount of Goodwill]
- Then, By that Asset which can be tested for Impairment individually also [Upto the Amount of Impairment Loss calculated as per topic 'Recognition & Measurement of Impairment Loss on Individual Asset']
- At Last, Remaining Impairment Loss of CGU will be borne by all other assets in CGU (including Corporate Assets) in ratio of their Carrying Amounts

Note: No Impairment Loss of CGU will be borne by Current Asset [Eg: Inventory] in CGU since this asset is out of scope of Ind AS 36

Step 3: Calculate Impairment Loss for Unallocable Goodwill or Unallocable Corporate Asset [if Any]

It is calculated by Impairment Testing for the Entity as a whole as follows:

Particulars	CGU ₁	CGU ₂	CGU ₃	Unallocable Goodwill or Corporate Asset	Total
Carrying Amount	xx	xx	xx	xx	xx
(-) IL on each CGU as calculated in Step 2	(xx)	(xx)	(xx)	-	(xx)
RCA of each CGU after Impairment	xx	xx	xx	xx	xx \rightarrow (A)
Recoverable Amount of Entity as a whole					xx \rightarrow (B)

Now, If (A) > (B), then this Impairment Loss will be borne by Unallocable Goodwill or Unallocable Corporate Asset only; because CGUs are already impaired in Step 2.

Step 4: Recognition of Impairment Loss

- Impairment Loss is generally recognised in P&L

\downarrow

However, If there is any balance in Revaluation Surplus [OCI] relating to Impaired Asset, then Impairment Loss is firstly recognised in Revaluation Surplus [OCI] upto any balance existing in it.

• Journal Entry :

(i) Impairment Loss Alc	xxx	
To Asset Alc		xxx
(ii) Revaluation Surplus [OCI] Alc	upto Balance in this Alc	
P&L Alc	Balancing figure	
To Impairment Loss Alc		xxx

Step 5: Revised Carrying Amount [RCA] of each Asset in CGU

$$\begin{aligned} \text{RCA} &= \text{Carrying Amount after Impairment Loss is charged} \\ &= \text{Carrying Amount before Impairment Loss} - \text{Impairment Loss} \end{aligned}$$

* Depreciation will be charged on this RCA in future

Example 4 :

On 31st March 20x1, A Ltd. has a CGU having following Assets with their Carrying Amounts as below :-

Machine A = ₹ 5,25,000

Machine B = ₹ 2,50,000

Machine C = ₹ 1,00,000

Inventory = ₹ 2,00,000

Goodwill = ₹ 1,50,000

Recoverable Amount of CGU is ₹ 10,00,000.

Machine A can be tested for Impairment individually also, its Recoverable Amount is ₹ 5,00,000. Calculate Impairment Loss & Revised Carrying Amount of each asset after impairment.

Solution :

Step 1: Impairment Testing

$$\begin{aligned} \text{Carrying Amount of CGU} &\Rightarrow 5,25,000 + 2,50,000 + 1,00,000 + 2,00,000 + 1,50,000 \\ &\Rightarrow ₹ 12,25,000 \end{aligned}$$

$$\text{Recoverable Amount of CGU} \Rightarrow ₹ 10,00,000$$

Since Carrying Amount > Recoverable Amount ; Impairment Loss is there.

$$\begin{aligned} \text{Step 2: Impairment Loss in CGU} &= 12,25,000 - 10,00,000 \\ &= ₹ 2,25,000 \end{aligned}$$

↓

This Impairment Loss will be borne by following assets :

(i) Goodwill = ₹ 1,50,000

(ii) Machine A = upto Individual Impairment Loss on it
i.e. $5,25,000 - 5,00,000 \Rightarrow ₹ 25,000$

(iii) Machine B & Machine C = Remaining IL $\left[\begin{array}{l} \text{i.e. } 22,5000 - 150,000 - 25,000 \\ = ₹ 50,000 \end{array} \right]$
 in ratio of Carrying Amounts of Machine B & C
 $\left[\text{i.e. } 2,50,000 : 1,00,000 \text{ or } 5 : 2 \right]$
 \downarrow
 Machine B = $50,000 \times \frac{5}{7} = ₹ 35,714$
 Machine C = $50,000 \times \frac{2}{7} = ₹ 14,286$

(iv) No Impairment Loss will be borne by Inventory (out of scope of Ind AS 36)

Step 3: Not Applicable

Step 4: Not Asked to Pass Journal Entry in question

Step 5: Revised Carrying Amount of each asset in CGU after Impairment

	Goodwill	Machine A	Machine B	Machine C	Inventory	Total of CGU
Carrying Amt.	1,50,000	5,25,000	2,50,000	1,00,000	2,00,000	12,25,000
(-) IL	(1,50,000)	(25,000)	(35,714)	(14,286)	-	(2,25,000)
RCA	-	5,00,000	2,14,286	85,714	2,00,000	10,00,000

Note: If Goodwill acquired in Business Combination is Partial Goodwill [i.e. NCI is measured as per PSNA method], then Unrecognised Goodwill attributable to NCI is also considered for calculating Impairment Loss only.

$$\text{Unrecognised Goodwill attributable to NCI} = \frac{\text{Partial Goodwill}}{\text{Parent's Share}} \times \text{NCI Share}$$

Example 5:

A Ltd. acquires 80% shares of B Ltd. Goodwill arising on acquisition is ₹ 800 (NCI is measured at PSNA). Carrying Amount of Net Assets (excluding Goodwill) is ₹ 2,700.

Calculate IL allocable to Parent & NCI and the Revised Carrying Amount if:

(a) Recoverable Amount of CGU is ₹ 2,000

(b) Recoverable Amount of CGU is ₹ 2,800

Solution:

(a) If Recoverable Amount of CGU is ₹ 2,000:

	Goodwill	Net Assets	Total of CGU
Carrying Amount	800	2,700	3,500
(+) Unrecognised Goodwill for NCI $\left[\frac{800}{80\%} \times 20\% \right]$	200	-	200
	1,000	2,700	3,700
Recoverable Amount of CGU			2,000
Total Impairment Loss			1,700
Impairment Loss Allocation	(1,000)	(700)	
Revised Carrying Amount	-	2,000	2,000

Impairment Loss allocable to:	Parent	NCI
On Goodwill	800	-
	[1,000 × 80%]	
On Other Assets	560	140
	[700 × 80%]	[700 × 20%]
	<u>1,360</u>	<u>140</u>

(b) If Recoverable Amount of CGU is ₹ 2,800 :

Carrying Amount	Goodwill	Net Assets	Total of CGU
	800	2,700	3,500
(+) Unrecognised Goodwill for NCI $\left[\frac{800}{80\%} \times 20\%\right]$	<u>200</u>	-	<u>200</u>
	1,000	2,700	3,700
Recoverable Amount of CGU			<u>2,800</u>
Total Impairment Loss			<u>900</u>
Impairment Loss Allocation	(900)		
	<u>100</u>	<u>2,700</u>	2,800

Since only Goodwill attributable to Parent has been recorded in books ⇒
Revised Carrying Amount in Books

	80	2,700	2,780
	[100 × 80%]		
Impairment Loss allocable to:	Parent	NCI	
On Goodwill	720	-	
	[900 × 80%]		
On Other Assets	-	-	
	<u>720</u>	<u>-</u>	

Reversal of Impairment Loss on CGU

• Impairment Loss recognised on an CGU in earlier years can be reversed if on date of reversal its Carrying Amount < Recoverable Amount

• Steps to be followed for Reversal of Impairment Loss on CGU :

Step 1 : Calculate Carrying Amount of each asset in CGU on date of reversal of IL

Step 2 : Calculate Amount of Reversal of Impairment Loss

$$\begin{array}{l} \text{Maximum Possible} \\ \text{Amount of Reversal} \\ \text{of Impairment Loss} \end{array} = \begin{array}{l} \text{Recoverable Amount} \\ \text{of CGU on date of} \\ \text{Reversal} \end{array} - \begin{array}{l} \text{Carrying Amount} \\ \text{of CGU on date} \\ \text{of Reversal} \end{array}$$

↓

This Reversal of Impairment Loss will be done in Assets in CGU as follows :

→ firstly, To that Asset for which Recoverable Amount is also available individually

[Upto the Amount of Reversal of Impairment Loss calculated as per Topic 'Reversal' of Impairment Loss on Individual Asset']

→ Then, Remaining Maximum Possible Amount of Reversal of Impairment Loss will be done in all other assets which were impaired earlier in CGU (excluding Goodwill) in Ratio of their Carrying Amounts on date of reversal

[But Revised Carrying Amount of these Assets after above Reversal should not exceed their Carrying Amount on date of reversal if these Assets were never impaired.]

Note: No Reversal of Impairment Loss will be done in Goodwill.

Step 3: Recognition of Reversal of Impairment Loss

→ Reversal of Impairment Loss is generally recognised in P&L

However, If Impairment Loss is recognised in Revaluation Surplus [OCI] in earlier years, then Reversal of Impairment Loss is firstly recognised in Revaluation Surplus [OCI] upto Impairment Loss recognised in Revaluation Surplus [OCI] in earlier years.

→ Journal Entry

(i) Asset Alc	xxx	
To Impairment Loss Reversal Alc		xxx
(ii) Impairment Loss Reversal Alc	xxx	
To Revaluation Surplus [OCI] Alc		upto IL recognised in earlier years
To P&L Alc		Balancing figure

Step 4: Revised Carrying Amount [RCA] of each Asset in CGU

RCA = Carrying Amount after Reversal of IL
 = Carrying Amount before Reversal of IL + Reversal of IL

* Depreciation will be charged on this RCA in future

Example 6:

In Continuation to Example 4;

Remaining Useful Life of each Machine on 31st March 20X1 was 10 years.

On 31st March 20X2, Recoverable Amount of CGU becomes ₹ 11,00,000 and Recoverable Amount of Machine A becomes ₹ 4,80,000.

Calculate Reversal of Impairment Loss & the Revised Carrying Amount after Reversal.

Solution:

Step 1: Carrying Amount of each asset in CGU on date of reversal

	Goodwill	Machine A	Machine B	Machine C	Inventory	Total of CGU
CA after IL on 31.3.21	-	500,000	2,14,286	85,714	2,00,000	10,00,000
(-) Dep. for 1 Year	-	(50,000)	(21,429)	(8,571)	-	(80,000)
	-	4,50,000	1,92,857	77,143	2,00,000	9,20,000

Step 2: Maximum Possible Reversal of IL = 11,00,000 - 9,20,000

$$= ₹ 1,80,000$$

↓

This Reversal of IL will be done in Assets in CGU as follows:

(i) Machine A = upto Individual Reversal of Impairment Loss on it
i.e. It can be shown at Lower of

$$\begin{aligned} \text{Recoverable Amount} \\ = ₹ 4,80,000 \end{aligned}$$

$$\begin{aligned} \text{Carrying Amount if it was never impaired} \\ = 5,25,000 (\text{cost}) - 52,500 (\text{Dep. for 1 Year}) \\ = ₹ 4,72,500 \end{aligned}$$

$$\therefore \text{Reversal of IL} = 4,72,500 - 4,50,000 = ₹ 22,500$$

(ii) Machine B & Machine C = Remaining Reversal of IL [i.e. $1,80,000 - 22,500$]
= ₹ 1,57,500

in ratio of Carrying Amounts of Machine B & C
[i.e. $1,92,857 : 77,143$ or $5 : 2$]

↓

$$\text{Machine B} = 1,57,500 \times \frac{5}{7} = ₹ 1,12,500$$

$$\text{Machine C} = 1,57,500 \times \frac{2}{7} = ₹ 45,000$$

$$\begin{aligned} \text{Carrying Amount of Machine B \& C if never impaired} \\ \text{Machine B} = 2,50,000 (\text{cost}) - 25,000 (\text{Dep. for 1 Year}) \\ = ₹ 2,25,000 \\ \text{Machine C} = 1,00,000 (\text{cost}) - 10,000 (\text{Dep. for 1 Year}) \\ = ₹ 90,000 \end{aligned}$$

\therefore Reversal to be done in

$$\text{Machine B} = 2,25,000 - 1,92,857 = ₹ 32,143$$

$$\text{Machine C} = 90,000 - 77,143 = ₹ 12,857$$

(iii) No Reversal of Impairment Loss will be done in Goodwill.

Step 3: Not Asked to Pass Journal Entry in question

Step 4: Revised Carrying Amount of each asset in CGU after Reversal

	Goodwill	Machine A	Machine B	Machine C	Inventory	Total of CGU
Carrying Amount	-	4,50,000	1,92,857	77,143	2,00,000	9,20,000
(+) Reversal of IL	-	22,500	32,143	12,857	-	67,500
RCA after Reversal	-	<u>4,72,500</u>	<u>2,25,000</u>	<u>90,000</u>	-	<u>9,87,500</u>