

## 7. IND AS 36 – IMPAIRMENT OF ASSETS

### Practical Example 1: (Foreign Currency Cash Flows)

On March 31, 20X1, XYZ Ltd. makes following estimate of cash flows for one of its asset located in USA:

Year	Cash flows
20X1-20X2	US \$ 80
20X2-20X3	US \$ 100
20X3-20X4	US \$ 20

Following information has been provided:

Particulars	India	USA
Applicable discount rate	15%	10%

Exchange rates are as follows:

As on	Exchange rate
March 31, 20X1	Rs 45/US \$
As on	Expected Exchange rate
March 31, 20X2	Rs 48/US \$
March 31, 20X3	Rs 51/US \$
March 31, 20X4	Rs 55/US \$

Calculate value in use as on March 31, 20X1.

### SOLUTION

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 March 31, 20X1, i.e., date of calculating value in use ₹ 45/US \$			
Value in use as on March 31, 20X1 ₹ 7,668			

### Practical Example 2: (Estimating Future Cash Flows)

Cash flow of ₹ 1,000 may be received in one year, two years or three years with probabilities of 10%, 60% and 30%, respectively. Calculate expected cash flows assuming applicable discount rate of 5%, 5.25% and 5.5% in year 1, 2 and 3, respectively.

### SOLUTION

Years	Cash Flows	PVF	Present Value	Probability	Expected Cash Flows
1	1000	0.95238	952.38	10%	95.24
2	1000	0.90273	902.73	60%	541.64
3	1000	0.85161	851.61	30%	255.48

Total					892.36
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The expected present value is ₹ 892.36.

### **Practical Example 3:**

Pacific Bio Ltd, an Indian company, owns property in Japan. The property is held under the IND AS 16 Revaluation Model and has a carrying amount of Rs. 10.9 million at 30 September 20X3.

On this date Pacific Bio conducted an impairment test on the property and found its value in use to be Yen 23 million and its fair value less costs of sell to be Yen 21.5 million. The company has previously recognised a revaluation surplus in respect of the property and the balance on the revaluation surplus in equity is Rs. 1,656,750.

How is the impairment accounted for as at 30<sup>th</sup> September 20X3? Exchange rate on 30<sup>th</sup> September 20X3: Rs. 1: 2.5 Yen.

### **SOLUTION**

The recoverable amount is Yen 23 million, being the higher of value in use and fair value less costs of disposal. The recoverable amount is translated to Rs. 9.2 million, therefore an impairment loss of Rs. 1.7 million is recognised.

Rs. 1,656,750 reduces the revaluation surplus to nil and the balance of Rs. 43,250 is recognised in profit or loss (Rs.):

DEBIT	Revaluation surplus (other comprehensive income)	1,656,750
DEBIT	Profit or loss	43,250
CREDIT	Property	1,700,000

### **Practical Example 4:**

Mercury Ltd has an identifiable asset with a carrying amount of Rs1,000. Its recoverable amount is Rs 650. The tax rate is 30% and the tax base of the asset is Rs 800. Impairment losses are not deductible for tax purposes. The effect of the impairment loss is as follows:

### **SOLUTION:**

	Identifiable assets before impairment loss	Impairment loss	Identifiable assets after impairment loss
	Rs	Rs	Rs
Carrying amount	1,000	(350)	650
Tax Base	800	-	800
Taxable (deductible) temporary difference	200	(350)	(150)
Deferred tax liability (asset) at 30%	60	(105)	(45)

In accordance with Ind AS 12, the entity recognises the deferred tax asset to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

### **Practical Example 5:**

Holding Co. acquired 75% shares of Subsidiary Co. Total number of shares of subsidiary = 1,00,000. Market Price per share is Rs. 45. Market value of Net Assets acquired are Rs. 42,00,000/- Calculate NCI & Goodwill by both methods.

**Solution:**

**WN1) NCI as per fair value method**

Particulars		Amount
NCI's no. of shares	(A)	25,000
Market Price per share	(B)	45
NCI = (A x B)	(C)	11,25,000
Holding co.'s investment (75000 x 45)		33,75,000
(+ ) NCI		11,25,000
(-) 100 % Net Assets		(42,00,000)
Full Goodwill		3,00,000

**WN2) NCI as per Proportion of Net Assets Method**

Particulars		Amount
Fair Value of Total Net Assets	(A)	42,00,000
NCI %	(B)	25%
NCI = (A X B)		10,50,000
Holding co.'s investment		33,75,000
(+ ) NCI		10,50,000
(-) 100 % Net Assets		(42,00,000)
Practical Goodwill		2,25,000

**Conclusion:** Goodwill value is dependent as NCI's measurement.

**Practical Example 6: (Impairment of Goodwill when there is NCI)**

**Case 1: NCI as per Fair Value Method**

Goodwill = 3,75,000

Carrying Amount of CGU = 15,00,000 (Assuming goodwill is fully allocable to this CGU)

Therefore; Total CA of CGU = 18,75,000

Recoverable Amount = 14,00,000

Therefore Impairment Loss = 4,75,000

Impairment loss allocated to Goodwill = 3,75,000

Impairment loss allocated to CGU = 1,00,000

**Journal Entry**

(a)	Impairment Loss A/c	Dr.	4,75,000
	To Goodwill A/c		3,75,000
	To PPE A/c		1,00,000
(b)	P&L of Parent A/c	Dr.	3,32,500
	NCI A/c	Dr.	1,42,500
	To Impairment Loss A/c		4,75,000

**Case 2: NCI as per Proportion of Net Assets Method**

Goodwill = 3,00,000

Carrying Amount of CGU = 15,00,000

Therefore; Total CA of CGU = 18,00,000 (Including goodwill) AS PER BOOKS

Total Recoverable Amount = 14,00,000

Carrying Amount of CGU (including Parent's Share of 3,00,000 in goodwill) = 18,00,000

(+) Notional Goodwill (share of NCI) = 1,28,571

**Total CA of CGU including full goodwill (including Notional) = 19,28,571**

Impairment Loss = 5,28,571

(-) Goodwill = (4,28,571)

**PPE Impairment = 1,00,000**

**Impairment Loss to be Recognised: -**

Towards CGU	1,00,000
Towards Recognised Goodwill	3,00,000
<b>Total Impairment Loss</b>	<b>4,00,000</b>

**Entry:**

NCI A/c Dr.	30,000
P & L A/c (Parent) Dr.	3,70,000
To Goodwill	3,00,000
To PPE	1,00,000

**Case 3: NCI as per Proportion of Net Assets Method**

Recoverable Asset	16,00,000
CA (Including Notional)	19,28,571
<b>Impairment Loss</b>	<b>3,28,571</b>

**70% of above Impairment Loss belongs to Parent's share:**

Impairment Loss (P&L) A/c	Dr.	2,30,000
To Goodwill A/c		2,30,000

(30% of remaining loss belongs to NCI but not to be recognized, since it was Notional not originally recorded earlier)

**Practical Example 7: (Reversal of Impairment Loss)**

As on 1/4/16 Original Cost of PPE = 30,00,000; Estimated Life = 12 years; Depreciation is charged under SLM Method. Therefore, Original Depreciation = 2,50,000 pa.

On 1/4/19, Fair Value of PPE was 27,00,000 (PPE is under Revaluation Model)

Carrying Amt. (CA) as on 1/4/19 =  $30,00,000/12 \times 9 = 22,50,000$

Therefore, Revaluation Surplus = 4,50,000

Revised CA as on 1/4/19 = 27,00,000

Remaining Life = 9 years

Revised Depreciation = 3,00,000 P.a.

Assuming entity opted to transfer partial revaluation surplus to GR equal to excess depreciation i.e. 50,000 p.a.

On 31/3/21, PPE tested for impairment & Recoverable amount is 16,00,000

CA as on 31/3/21 = 21,00,000

Recoverable Amount = 16,00,000

Impairment Loss = 5,00,000

Setoff out of Revaluation Surplus = 3,50,000

Remaining Transfer to P&L = 1,50,000

Revised CA as on 31/3/21 = 16,00,000

Balance of Revaluation Surplus = Nil

Depreciation = 2,28,571 (P.A.) with useful life of 7 years

On 31/3/24, Indicators of Reversal of Impairment arise,

Recoverable Amount is:-

Case 1 = 11,00,000

Case 2 = 15,00,000

Current CA (as on 31/3/24) = 9,14,286

#### Reversal (Case 1)

Recoverable Amt. = 11,00,000

CA had there been no Impairment earlier =  $27,00,000/9 \times 4 = 12,00,000$

Whichever is less; i.e. 11,00,000

CA of PPE should be increased to 11,00,000

Reversal of I/L = 1,85,714 (11,00,000 - 9,14,286)

What could be the revaluation surplus Balance had there been no impairment ?

$4,50,000/9 \times 4 = 2,00,000$  (Hence entire reversal shall be made through Revaluation Surplus)

PPE A/c	Dr.	1,85,714
	To Revaluation Surplus	1,85,714

#### Reversal (Case 2)

Recoverable amount = 15,00,000

CA had there been no Impairment earlier = 12,00,000

Whichever is lower i.e. CA shall be increased to ₹ 12,00,000

Reversal = 2,85,714

Maximum Revaluation Surplus that could be increased (had there been no impairment) = 2,00,000

Profit & Loss = 85,714

PPE A/c Dr.	2,85,714
To Revaluation Surplus	2,00,000
To P & L A/c	85,714

