

IMPAIRMENT OF ASSETS

Coverage	This standard prescribes the procedures to be applied to ensure that the assets of enterprise are carried at amount not exceeding their recoverable amount (amount to be recovered through use or sale of the asset). The standard also lays down principles for reversal of impairment losses and prescribes certain disclosures in respect of impaired assets.	
Scope	The standard should be applied in accounting for impairment of all assets except 1. inventories (AS 2), 2. assets arising under construction contracts (AS 7), 3. financial assets including investments covered under AS 13, and 4. deferred tax assets (AS 22). There are chances that the provision on account of impairment losses may increase sickness of companies and potentially sick companies may actually become sick.	
Definitions	Impairment Loss	It is the amount by which the carrying amount of an asset exceeds its recoverable amount.
	Recoverable Amount	It is the higher of an asset's net selling price and its value in use.
	Net Selling Price	It is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.
	Costs of Disposal	These are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense
	Value in Use	It 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
	Carrying Amount	It is the amount at which an asset is recognised in balance sheet after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon.
Assessment	An enterprise should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the enterprise should estimate the recoverable amount of the asset. An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. In assessing whether there is any indication that an asset may be impaired, an enterprise should consider, as a minimum, the following indications: External sources of information ❖ During period, an asset's market value has declined significantly more than would be expected as result of the passage of time or normal use. ❖ Significant changes with an adverse effect on the enterprise have taken place during the period, or will take place soon, in the technological, market, economic or legal environment in which the enterprise operates or in the market to which an asset is dedicated.	

	<ul style="list-style-type: none"> ❖ Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially. ❖ The carrying amount of the net assets of the reporting enterprise is more than its market capitalization. <p>Internal sources of information</p> <ul style="list-style-type: none"> ❖ Evidence is available of obsolescence or physical damage of an asset. ❖ Significant changes with an adverse effect on the enterprise have taken place during the period or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include plans to discontinue or restructure the operation to which an asset belongs or to dispose of an asset before the previously expected date and ❖ Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. <p>An enterprise may identify other indications that an asset may be impaired, and these would also require the enterprise to determine the asset's recoverable amount.</p> <p>Example that indicates that an asset may be impaired because of the following:</p> <ol style="list-style-type: none"> a) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted. b) actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted. c) a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or d) operating losses or net cash outflows for the asset when current period figures are aggregated with budgeted figures for the future. The concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated.
<p>Estimate of Cash Flows</p>	<p>Cash flow projections should be based on reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset. Greater weight should be given to external evidence.</p> <p>Cash flow projections should be based on the most recent approved budgets/forecasts for a maximum of 5 years. Financial budgets/forecasts over a period longer than 5 years may be used if management is confident that these projections are reliable and it can demonstrate its ability, based on experience, to forecast cash flows accurately over that longer period.</p> <p><i>Estimates of future cash flows should include:</i></p> <ol style="list-style-type: none"> (i) Projections of net cash inflows from the continuing use of the asset (ii) projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset and that can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and (iii) Net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life

	<p>Care should be taken for the following points:</p> <ol style="list-style-type: none"> When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale should be included. Cash inflows from assets that generate cash inflows from continuing use that are largely independent of the cash inflows from the asset under review should not be included. Cash outflows that relate to obligations that have already been recognised as liabilities to be excluded. Future cash outflows or inflows expected to arise because of restructuring of the organization should be not considered. Any future capital expenditure enhancing the capacity of the assets and its related savings/outflow should be excluded. Any increase in expected cash inflow from the above expenditure should also be excluded. Estimates of future cash flows should not include cash inflows or outflows from financing activities and also income tax receipts or payments. The estimate of net cashflow upon disposal of the asset should be the amount that an enterprise expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties prevailing at the date of the estimates, after deducting the estimated costs of disposal. <p>Foreign Currency Future Cash Flows are estimated in currency in which it will be generated and then they are discounted for the time value of money using a discount rate appropriate for that currency we convert cashflow in the reporting currency on the basis of AS 11.</p>
Discount Rate	<p>The discount rate(s) should be a pre-tax rate(s) that reflect(s) current market assessments of the time value of money and the risks specific to the asset. The discount rate(s) should not reflect risks for which future cash flow estimates have been adjusted.</p> <p>An enterprise normally uses a single discount rate for the estimate of an asset's value in use. However, an enterprise uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.</p>
Recognition and Measurement of Impairment Loss	
<p>Case I: If recoverable amount of assets more than carrying amount, we ignore the difference and asset is carried on at the same book value.</p> <p>Note: If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation method or the residual value for the asset need to be reviewed and adjusted under the AS 10, even if no impairment loss is recognised for the asset</p>	

Case II:

When this recoverable amount is less than the carrying amount, this difference termed as Impairment Loss.

Treatment of Impairment loss: It should be written off immediately as expenses to P&L A/c. If assets are carried out at revalued figures then the impairment loss equivalent to revalued surplus is adjusted with it and the balance (if any) is charged to Profit & Loss Account.

Depreciation: Depreciation for the coming years on the assets are recalculated on the basis of the new carrying amount, residual value and remaining useful life of the asset, according to AS 10

Case III:

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an enterprise should recognise a liability if, and only if, that is required by another AS.

Identification of Cash Generating Unit (CGU)

A cash generating unit 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.

If there is any indication that an asset may be impaired, the recoverable amount should be estimated for the individual asset, if it is not possible to estimate the recoverable amount of the individual asset because the value in use of the asset cannot be determined and it is probably different from scrap value. Therefore, the enterprise estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If recoverable amount cannot be determined for an individual asset, an enterprise identifies the lowest aggregation of assets that generate largely independent cash inflows from continuing use.

Recoverable Amount & Carrying Amount of a CGU

The carrying amount of a cash-generating unit should be determined consistently with the way the recoverable amount of the cash-generating unit is determined i.e., carrying amount is the summation of the carrying amount of all the assets grouped under one cash-generating unit. This also includes liability only if that liability is necessary to be considered to determine the recovery amount.

For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of assets that are not part of the cash-generating unit or liabilities that have already been recognised in the financial statements. In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Impairment Loss for a CGU

The impairment loss should be allocated to reduce the carrying amount of the assets of the unit in the following order:

- a. First, to goodwill allocated to the cash-generating unit (if any); and
- b. Then, to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. These reductions in carrying amounts should be treated as impairment losses on individual assets

The carrying amount of an asset should not be reduced below the highest of:

- a. Its net selling price (if determinable);
- b. Its value in use (if determinable); and
- c. Zero.

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.

Goodwill

Goodwill does not generate cash flows independently from other assets or groups of assets and, therefore, the recoverable amount of goodwill as an individual asset cannot be determined. As a consequence, if there is an indication that goodwill may be impaired, recoverable amount is determined for the cash generating unit to which goodwill belongs. This amount is then compared to the carrying amount of this cash-generating unit and any impairment loss is recognized.

Case 1: If goodwill can be allocated on a reasonable and consistent basis: An enterprise applies the 'bottom-up' test only.

Case 2: If it is not possible to allocate goodwill on a reasonable and consistent basis: An enterprise applies both the 'bottom-up' test and 'top-down' test

Example:

At the end of 2020, enterprise M acquired 100% of enterprise Z for ₹ 3,000 lakhs. Z has 3 cash-generating units A, B and C with net fair values of ₹ 1,200 lakhs, ₹ 800 lakhs and ₹ 400 lakhs respectively. M recognises goodwill of ₹ 600 lakhs (₹ 3,000 lakhs less ₹ 2,400 lakhs) that relates to Z.

At the end of 2024, A makes significant losses. Its recoverable amount is estimated to be ₹ 1,350 lakhs. Carrying amounts are detailed below (₹ In Lakh).

End of 2024	A	B	C	Goodwill	Total
Net carrying amount	1300	1200	800	120	3420

Scenario A - Goodwill Can be Allocated on a Reasonable and Consistent Basis

On date of acquisition of Z, the net fair values of A, B and C are considered a reasonable basis for a pro-rata allocation of the goodwill to A, B and C.

Allocation of goodwill at the end of 2024:

	A	B	C	Goodwill
End of 2020				
Net fair values	1200	800	400	2400
Pro-Rata	50%	33%	17%	100%
End of 2024				
Net carrying amount	1300	1200	800	3300
Allocation of goodwill (Using pro rate above)	60	40	20	120
Net carrying amount (After goodwill)	1360	1240	820	3420

In accordance with the 'bottom-up' test as per AS 28, M compares A's recoverable amount to its carrying amount after the allocation of the carrying amount of goodwill:

End of 2024	A (₹ In Lakh)
Carrying amount after allocation of goodwill	1360
Recoverable amount	1350
Impairment loss	10

M recognises an impairment loss of ₹ 10 lakhs for A. The impairment loss is fully allocated to the goodwill in accordance with AS 28.

Scenario B - Goodwill Cannot be Allocated on a Reasonable and Consistent Basis

There is no reasonable way to allocate the goodwill that arose on the acquisition of Z to A, B and C. At the end of 2024, Z's recoverable amount is estimated to be ₹ 3,400 lakhs.

At the end of 2024, M first applies the 'bottom-up' test in accordance with AS 28. It compares A's recoverable amount to its carrying amount excluding the goodwill.

End of 2024	A (₹ In Lakh)
Carrying amount	1300
Recoverable amount	1350
Impairment loss	0

Therefore, no impairment loss is recognised for A as a result of the 'bottom-up' test. Since the goodwill could not be allocated on a reasonable and consistent basis to A, M also performs a 'top-down' test in accordance with AS 28. It compares the carrying amount of Z as a whole to its recoverable amount (Z as a whole is the smallest cash-generating unit that includes A and to which goodwill can be allocated on reasonable and consistent basis).

Application of the 'top-down' test (Amount in ₹ lakhs)

End of 2024	A	B	C	Goodwill	Total
Carrying amount	1300	1200	800	120	3420
Impairment loss arising from 'bottom-up' test	0	-	-	-	0
Carrying amount after the 'bottom-up' Test	1300	1200	800	120	3420
Recoverable amount	-	-	-	-	3400
Impairment loss arising from 'top-down' test	-	-	-	-	20

Therefore, M recognises an impairment loss of ₹ 20 lakhs that it allocates fully to goodwill in accordance with AS 28.

Corporate Assets

Key characteristics of corporate assets are that they do not generate cash inflows independently from other assets or groups of assets and their carrying amount cannot be fully attributed to the cash-generating unit under review.

Examples

Building of a headquarter or a division of the enterprise, EDP equipment or a research Centre.

In testing a cash-generating unit for impairment, an enterprise should identify all the corporate assets that relate to the cash-generating unit under review. For each identified corporate asset:

- If the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis to the cash-generating unit under review, an enterprise should apply the 'bottom-up' test only; and
- If the carrying amount of the corporate asset cannot be allocated on a reasonable and consistent basis to the cash-generating unit under review, an enterprise should apply both the 'bottom-up' and 'top-down' tests.

Reversal of an Impairment Loss

An enterprise should 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. If any such indication exists, the enterprise should estimate the recoverable amount of that asset. An impairment loss recognised for an asset in prior accounting periods should be reversed if there has been a change in the estimates of cash inflows, cash outflows or discount rates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset should be increased to its recoverable amount. That increase is a reversal of an impairment loss.

Reversal for an Individual Asset

Case 1: If impairment loss was written off to profit and loss account, then the reversal of impairment loss should be recognized as income in the financial statement immediately.

Case 2: If impairment loss was adjusted with the Revaluation Reserve; then reversal of impairment loss will be written back to the reserve account to the extent it was adjusted, any surplus will be recognised as revenue. But in any case, the increased carrying amount of an asset due to a reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognised for the asset in prior accounting periods. This is mainly because any further increase in value of asset is revaluation, which is governed by AS 10.

Reversal for a CGU

A reversal of an impairment loss for a cash-generating unit should be allocated to increase the carrying amount of the assets of the unit in the following order:

- a. First, assets other than goodwill on a pro-rata basis based on the carrying amount of each asset in the unit; and
- b. Then, to goodwill allocated to the cash-generating unit (if any),

In allocating a reversal of an impairment loss for a cash generating unit, 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. 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.

Reversal for Goodwill

This Statement does not permit an impairment loss to be reversed for goodwill because of a change in estimates (for example, a change in the discount rate or in the amount and timing of future cash flows of the cash generating unit to which goodwill relates), 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.

IMPAIRMENT IN CASE 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.

In applying this Statement to a discontinuing operation, an enterprise determines whether the recoverable amount of an asset of a discontinuing operation is assessed for the individual asset or for the asset's cash-generating unit.

- A) **If in entirety:** recoverable amount is determined for the discontinuing operation as a whole and an impairment loss, if any, is allocated among the assets of the discontinuing operation.
- B) **If in other ways such as Piecemeal distribution:** Recoverable amount is determined for individual assets, unless the assets are sold in groups.
- C) If the enterprise **abandons** the discontinuing operation, the recoverable amount is determined for individual assets as set out in this Statement.

DISCLOSURE REQUIREMENTS

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

- a. The amount of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included;
- b. The amount of reversals of impairment losses recognised in the statement of profit and loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed;
- c. The amount of impairment losses recognised directly against revaluation surplus during the period; and
- d. The amount of reversals of impairment losses recognised directly in revaluation surplus during the period.

An enterprise that applies AS 17, Segment Reporting, should disclose the following for each reportable segment based on an enterprise's primary format (as defined in AS 17):

- a. The amount of impairment losses recognised in the statement of profit and loss and directly against revaluation surplus during the period; and
- b. The amount of reversals of impairment losses recognised in the statement of profit and loss and directly in revaluation surplus during the period.

If an impairment loss for an individual asset or a cash-generating unit is recognised or reversed during the period and is material to the financial statements of the reporting enterprise as a whole, an enterprise should disclose:

- a. The events & circumstances that led to the recognition or reversal of impairment loss;
- b. The amount of the impairment loss recognised or reversed;
- c. For an individual asset:
 - (i) The nature of the asset; and
 - (ii) The reportable segment to which the asset belongs, based on the enterprise's primary format (as defined in AS 17, Segment Reporting);
- d. For a cash-generating unit:
 - (i) A description of the CGU (such as whether it is a product line, a plant, a business operation, a geographical area, a reportable segment as defined in AS 17 or other);
 - (ii) The amount of the impairment loss recognised or reversed by class of assets & by reportable segment based on enterprise's primary format (as defined in AS 17); and
 - (iii) If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), the enterprise should describe the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified;
- e. Whether the recoverable amount of the asset (cash-generating unit) is its net selling price or its value in use;
- f. If recoverable amount is net selling price, the basis used to determine net selling price (such as whether selling price was determined by reference to an active market or in some other way); and
- g. If recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

If impairment losses recognised (reversed) during the period are material in aggregate to the financial statements of the reporting enterprise as a whole, an enterprise should disclose a brief description of the following:

- a. The main classes of assets affected by impairment losses (reversals of impairment losses);
- b. The main events and circumstances that led to the recognition (reversal) of these impairment losses.

ASSIGNMENT QUESTIONS

Question 1 (ICAI Study Material) Pg no. _____

Ergo Industries Ltd. gives the following estimates of cash flows relating to Property, Plant and equipment on 31-12-2021. The discount rate is 15%.

Year	Cash Flow (₹ in lakhs)
2022	4000
2023	6000
2024	6000
2025	8000
2026	4000
Residual value at the end of 2026	₹ 1000 lakhs
Property, Plant and Equipment purchased on 1-1-2019	₹ 40,000 lakhs
Useful life	8 years
Net selling price on 31-12-2021	₹ 20,000 lakhs

Calculate on 31-12-2021:

- (a) Carrying amount at the end of 2021
- (b) Value in use on 31-12-2021
- (c) Recoverable amount on 31-12-2021
- (d) Impairment loss to be recognized for the year ended 31-12-2021
- (e) Revised carrying amount
- (f) Depreciation charge for 2022.

Question 2 (ICAI Study Material) Pg no. _____

X Ltd. is having a plant (asset) carrying amount of which is ₹ 100 lakhs on 31.3.2021. Its balance useful life is 5 years and residual value at the end of 5 years is ₹ 5 lakhs. Estimated future cash flow from using the plant in next 5 years are:

For the year ended on	Estimated cash flow (₹ in lakhs)
31.3.2022	50
31.3.2023	30
31.3.2024	30
31.3.2025	20
31.3.2026	20

Calculate "value in use" for plant if the discount rate is 10% and also calculate the recoverable amount if net selling price of plant on 31.3.2021 is ₹ 60 lakhs.

Question 3 (ICAI Study Material) Pg no. _____

G Ltd., acquired a machine on 1st April, 2020 for ₹ 7 crore that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2024, the carrying value of the machine was reassessed at ₹ 5.10 crore and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March, 2026, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only ₹ 79 lakhs.

You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of G Ltd. G Ltd., had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

Question 4 (ICAI Study Material) Pg no. _____

An asset does not meet the requirements of environment laws which have been recently enacted. The asset has to be destroyed as per the law. The asset is carried in the Balance Sheet at the year end at ₹ 6,00,000. The estimated cost of destroying the asset is ₹ 70,000. How is the asset to be accounted for?

Solution

Impairment loss = Carrying amount - Recoverable amount, where recoverable amount is higher of an asset's net selling price* and its value in use**. In the given case, recoverable amount will be nil [higher of value in use (nil) and net selling price (negative ₹ 70,000)]. Thus impairment loss will be calculated as ₹ 6,00,000 [carrying amount (₹ 6,00,000) - recoverable amount (nil)].

Therefore, asset is to be fully impaired and impairment loss of ₹ 6,00,000 has to be recognized as an expense immediately in the statement of Profit and Loss as per AS 28.

Further, as per AS 28, When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an enterprise should recognise a liability if, and only if, that is required by another Accounting Standard. Hence, the entity should recognize liability for cost of disposal of ₹ 70,000 as per AS 10 & 29.

*Net selling price = Selling price - Cost of disposal = Nil - ₹ 70,000 = (₹ 70,000)

**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. In the given case, value in use is nil.

Question 5 (ICAI Study Material) Pg no. _____

A plant was acquired 15 years ago at a cost of ₹ 5 crores. Its accumulated depreciation as at 31st March, 2021 was ₹ 4.15 crores. Depreciation estimated for the financial year 2021-2022 is ₹ 25 lakhs. Estimated Net Selling Price as on 31st March, 2021 was ₹ 30 lakhs, 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 ₹ 35 lakhs as on 1st April, 2021, which is expected to decrease by 30 per cent by the end of the financial year.

- Assuming that other conditions for applicability of the impairment Accounting Standard are satisfied, what should be the carrying amount of this plant as at 31st March, 2022?
- How much will be the amount of write off for the financial year ended 31st March, 2022?
- If the plant had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 12 lakhs, how would you answer to questions (i) and (ii) above?
- If the value in use was zero and the enterprise were required to incur a cost of ₹ 2 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above?

Question 6 (ICAI Study Material) Pg no. _____

X Ltd. purchased a Property, Plant and Equipment four years ago for ₹ 150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year, it has revalued the asset at ₹ 75 lakhs and has written off the loss on revaluation to the profit and loss account. However, on the date of revaluation, the market price is ₹ 67.50 lakhs and expected disposal costs are ₹ 3 lakhs.

What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 60 lakhs?

Solution**Treatment of Impairment Loss**

As per AS 28 "Impairment of assets", if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. In the given case, net selling price is ₹ 64.50 lakhs (₹ 67.50 lakhs – ₹ 3 lakhs) and value in use is ₹ 60 lakhs. Therefore, recoverable amount will be ₹ 64.50 lakhs.

Impairment loss will be calculated as ₹ 10.50 lakhs [₹ 75 lakhs (Carrying Amount after revaluation - Refer Working Note) less ₹ 64.50 lakhs (Recoverable Amount)].

Thus impairment loss of ₹ 10.50 lakhs should be recognised as an expense in the Statement of Profit and Loss immediately since there was downward revaluation of asset which was already charged to Statement of Profit and Loss.

Working Note:**Calculation of carrying amount of the Property, Plant and Equipment at the end of the fourth year on revaluation**

	(₹ in lakhs)
Purchase price of a Property, Plant and Equipment	150.00
Less: Depreciation for four years [(150 lakhs / 10 years) x 4 years]	(60.00)
Carrying value at the end of fourth year	90.00
Less: Downward revaluation charged to profit and loss account	(15.00)
Revalued carrying amount	75.00

Question 7 **(ICAI Study Material)**

Pg no. _____

Good Drugs and Pharmaceuticals Ltd. acquired a sachet filling machine on 1st April, 2021 for ₹ 60 lakhs. The machine was expected to have a productive life of 6 years. At the end of financial year 2021-2022 the carrying amount was ₹ 41 lakhs. A short circuit occurred in this financial year but luckily the machine did not get badly damaged and was still in working order at the close of the financial year. The machine was expected to fetch ₹ 36 lakhs, if sold in the market. The machine by itself is not capable of generating cash flows. However, the smallest group of assets comprising of this machine also, is capable of generating cash flows of ₹ 54 crore per annum and has a carrying amount of ₹ 3.46 crore. All such machines put together could fetch a sum of ₹ 4.44 crore if disposed. Discuss the applicability of Impairment loss.

Solution

As per provisions of AS 28, impairment loss is not to be recognized for a given asset if its cash generating unit (CGU) is not impaired. In the given question, the related cash generating unit which is group of asset to which the damaged machine belongs is not impaired; and the recoverable amount is more than the carrying amount of group of assets. Hence there is no need to provide for impairment loss on the damaged sachet filling machine.

Question 8 **(ICAI Study Material) / (RTP Sep 2024)**

Pg no. _____

A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognized as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognized as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment. What is the cash-generating unit for an individual magazine title?

Solution

It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customer segment, cash inflows from direct sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis.

Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent of each other and that each magazine title is a separate cash-generating unit.

Question 9 _____ Pg no. _____

A mining entity owns a private railway to support its mining activities. The private railway could be sold only for scrap value and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the mine.

Recommend whether the entity should determine the recoverable amount for the private railway or for the mining business as a whole.

Solution

It is not possible to estimate the recoverable amount of the private railway because its value in use cannot be determined and is probably different from scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the private railway belongs, i.e., the mine as a whole.

Question 10 _____ Pg no. _____

A bus company provides services under contract with a municipality that requires minimum service on each of seven separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss. Examine whether the company should determine the recoverable amount for an individual asset or for a cash generating unit.

Solution

Because the entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the seven routes together. The cash-generating unit for each route is the bus company as a whole.

Question 11 _____ Pg no. _____

A company operates a mine in a country where legislation requires that the owner must restore the site on completion of its mining operations. The cost of restoration includes the replacement of the overburden, which must be removed before mining operations commence. A provision for the costs to replace the overburden was recognised as soon as the overburden was removed. The amount provided was recognised as part of the cost of the mine and is being depreciated over the mine's useful life. The carrying amount of the provision for restoration costs is ₹ 500, which is equal to the present value of the restoration costs.

The entity is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The entity has received various offers to buy the mine at a price of around ₹ 800. This price reflects the fact that the buyer will assume the obligation to restore the overburden. Disposal costs for the mine are negligible. The value in use of the mine is approximately ₹ 1,200, excluding restoration costs. The carrying amount of the mine is ₹ 1,000. Recommend the impairment loss is to be accounted for.

Solution

The cash-generating unit's fair value less costs of disposal is ₹ 800. This amount considers restoration costs that have already been provided for. As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs and is estimated to be ₹ 700 (₹ 1,200 less ₹ 500). The carrying amount of the cash-generating unit is ₹ 500, which is the carrying amount of the mine (₹ 1,000) less the carrying amount of the provision for restoration costs (₹ 500). Therefore, the recoverable amount of the cash generating unit exceeds its carrying amount. Thus, there is no impairment loss.

Question 12 _____ Pg no. _____

A Ltd. purchased an asset of ₹ 100 lakh on 1st April, 2020. It has useful life of 4 years with no residual value. Recoverable amount of the asset is as follows:

As on	Recoverable amount
31 st March, 2021	₹ 60 lakh
31 st March, 2022	₹ 40 lakh
31 st March, 2023	₹ 28 lakh

Calculate the amount of impairment loss or its reversal, if any, on 31st March, 2021, 31st March, 2022 and 31st March, 2023.

Solution**As on 31st March, 2021**

Carrying amount of the asset (opening balance)	₹ 100 Lakhs
Depreciation (₹ 100 lakh /4 years)	₹ 25 Lakhs
Carrying amount of the asset (closing balance)	₹ 75 Lakhs
Recoverable amount (given)	₹ 60 Lakhs

Therefore, an impairment loss of ₹ 15 lakh should be recognised as on 31st March, 2021.

Depreciation for subsequent years should be charged on the carrying amount of the asset (after providing for impairment loss), i.e., ₹ 60 lakh.

As on 31st March, 2022

Carrying amount of the asset (opening balance)	₹ 60 Lakhs
Depreciation (₹ 60 lakh /3 years)	₹ 20 Lakhs
Carrying amount of the asset (closing balance)	₹ 40 Lakhs

Therefore, no impairment loss should be recognised as on 31st March, 2022.

As on 31st March, 2023

Carrying amount of the asset (opening balance)	₹ 40 Lakhs
Depreciation (₹ 40 lakh /2 years)	₹ 20 Lakhs
Carrying amount of the asset (closing balance)	₹ 20 Lakhs
Recoverable amount (given)	₹ 28 Lakhs

Since, the recoverable amount of the asset exceeds the carrying amount of the asset by ₹ 8 lakh, impairment loss recognised earlier should be reversed. However, 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 years.

Carrying amount as on 31st March, 2023 had no impairment loss being recognised would have been ₹ 25 lakh. Therefore, the reversal of an impairment loss of ₹ 5 lakh should be done as on 31st March, 2023.

PRACTICE QUESTIONS

Question 1 *(ICAI Study Material)* _____ Pg no. _____

Write short note on impairment of asset and its application to inventory.

Solution

The objective of AS 28 'Impairment of Assets' is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and this Standard requires the enterprise to recognize an impairment loss.

- If carrying amount \leq Recoverable amount: Asset is not impaired
- If carrying amount $>$ Recoverable amount: Asset is impaired

Impairment Loss = Carrying Amount – Recoverable Amount

Recoverable amount is the higher of net selling price and its value in use

This standard should be applied in accounting for the impairment of all assets, other than (i) inventories (AS 2, Valuation of Inventories); (ii) assets arising from construction contracts (AS 7, Accounting for Construction Contracts); (iii) financial assets, including investments that are included in the scope of AS 13, Accounting for Investments; and (iv) deferred tax assets (AS 22, Accounting for Taxes on Income).

AS 28 does not apply to inventories, assets arising from construction contracts, deferred tax assets or investments because other accounting standards applicable to these assets already contain specific requirements for recognizing and measuring the impairment related to these assets.

Question 2 *(ICAI Study Material)* _____ Pg no. _____

Venus Ltd. has a fixed asset, which is carried in the Balance Sheet on 31.3.2021 at ₹ 500 lakhs. As at that date the value in use is ₹ 400 lakhs and the net selling price is ₹ 375 lakhs. From the above data:

- Calculate impairment loss.
- Prepare journal entries for adjustment of impairment loss.
- Show, how impairment loss will be shown in the Balance Sheet.

Solution

- Recoverable amount is higher of value in use 400 lakhs & net selling price 375 lakhs

Recoverable amount = ₹ 400 lakhs

Impairment loss = Carrying Amount – Recoverable amount =

₹ 500 lakhs – ₹ 400 lakhs = ₹ 100 lakhs.

b. **Journal Entries** (₹ in lakhs)

	Particulars	Dr.	Cr.
(i)	Impairment Loss A/c Dr.	100	
	To Provision for Accumulated Impairment Loss A/c		100
	(Being the entry for accounting impairment loss)		
(ii)	Profit and loss A/c Dr.	100	
	To Impairment Loss A/c		100
	(Being the entry to transfer impairment loss to P&L A/c)		

c. Balance Sheet of Venus Ltd. as on 31.3.2021

	(₹ in lakhs)
Fixed Asset	
Asset less depreciation	500
Less: Impairment loss	(100)
	400

Question 3 (ICAI Study Material)

Pg no. _____

From the following details of an asset

- Find out impairment loss
- Treatment of impairment loss
- Current year depreciation

Particulars of asset:

Cost of asset	₹ 56 lakhs
Useful life period	10 years
Salvage value	Nil
Current carrying value	₹ 27.30 lakhs
Useful life remaining	3 years
Recoverable amount	₹ 12 lakhs
Upward revaluation done in last year	₹ 14 lakhs

Solution

According to AS 28 "Impairment of Assets", an impairment loss on a revalued asset is recognised as an expense in the statement of profit and loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for that same asset.

Impairment Loss and its treatment	₹
Current carrying amount (including revaluation amount of ₹14 lakhs)	27,30,000
Less: Current recoverable amount	(12,00,000)
Impairment Loss	15,30,000
Impairment loss charged to revaluation reserve	14,00,000
Impairment loss charged to profit and loss account	1,30,000

After the recognition of an impairment loss, the depreciation (amortization) 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.

In the given case, the carrying amount of the asset will be reduced to ₹ 12,00,000 after impairment. This amount is required to be depreciated over remaining useful life of 3 years (including current year).

Therefore, the depreciation for the current year will be ₹ 4,00,000.