AS 28 : Impairment of Assets

Scope : Not applicable to assets covered by AS 2, AS 7, AS 13 & AS 22.
Applicable to PPE & Intangible Assets.

Impairment Loss

Meaning

Impairment Loss = Carrying Amount − Recoverable Amount

Carrying Amount ↓
Book value after Depreciation & Amortisation at year end
(This is after Revaluation)

Recoverable Amount ↓
$\boxed{\text{Higher}}$ of
Net selling Price (1)
or
Value in Use (2)

(1) Net selling Price =
Expected Sale Price of Asset − Estimated selling Expenses
E.g. Commission
(Excluding : Tax & Finance costs)

(2) Value in use =
Present value of Net cash Inflows from use & its residual value
Net cash Inflows = Gross Inflows − Outflows to generate Inflows (E.g. Repairs)

Cash flows should be taken for maximum 5 years, unless justified

Accounting Treatment

Journal Entry

1) Impairment Loss A/c - Dr
   To Accumulated Impairment Loss A/c

2) Revaluation Reserve A/c - Dr (To the extent of Balance available)
   Profit & Loss A/c - Dr
   To Impairment Loss A/c

Revised Carrying Amount =
Carrying Amount before Impairment Loss − Impairment Loss

* Depreciation of future periods will get reduced due to Impairment Loss.

Balance sheet

Asset (cost)	xx
− Accumulated Depreciation	(xx)
− Accumulated Impairment Loss	(xx)
	xx

Note: If Recoverable Amount > Carrying Amount, ignore the difference & asset shown at same book value.

→ Review useful life, residual value or depreciation method as per AS 10.

Indicators of Impairment Loss

External

- ★ Low market capitalisation
- ★ Market Price of Asset has declined substantially
- ★ Unfavourable market conditions against entity in regard to demand, technology, Govt. policies, etc.
- ★ Market Interest rates have increased substantially

Internal

- ★ Poor Economic Performance by Asset
- ★ Physical Damage to Asset
- ★ Company has plans of Restructuring or Discontinuation

Reversal of Impairment Loss

If indicators due to which Impairment loss recognised earlier no longer exist, then Impairment loss to be reversed.

Calculation of Maximum Reversal of Impairment Loss

Carrying Amount of Asset Net of Depreciation (If No Impairment)	xx
Less: Carrying Amount of Asset Net of Depreciation (After Impairment)	(xx)
	xx

Note: Goodwill written off can be reversed only if certain conditions are met.

Cash Generating Unit (CGU)

* Smallest identifiable group of assets which are capable of generating independent cash inflows.
* If asset is capable of generating cash flows on independent basis, then such single asset is CGU, else identify the lowest aggregation of assets that generate independent cash inflows.

Carrying Amount of CGU :

Carrying Amount of all assets under CGU − Liability only if necessary to be considered
(E.g. Provision for Decommissioning)

Impairment Loss for CGU :

* First to Goodwill allocated to CGU &
* Then to other assets in ratio of their carrying amounts

Note : If CGU is not impaired, then individual asset which is part of CGU will not be impaired even its Net selling Price < Carrying Amount.

Goodwill : Does not generate cash flows independently from other assets or group of assets therefore recoverable amount cannot be determined.

Case 1 : If Goodwill can be allocated on reasonable & consistent basis : Apply Bottom up Test only.

Case 2 : If Goodwill cannot be allocated on reasonable & consistent basis : Apply Bottom up Test & Top Down Test

Corporate Assets : Administrative assets like HO Building, EDP Equipment, Research unit, etc.
Same Treatment Like Goodwill.