



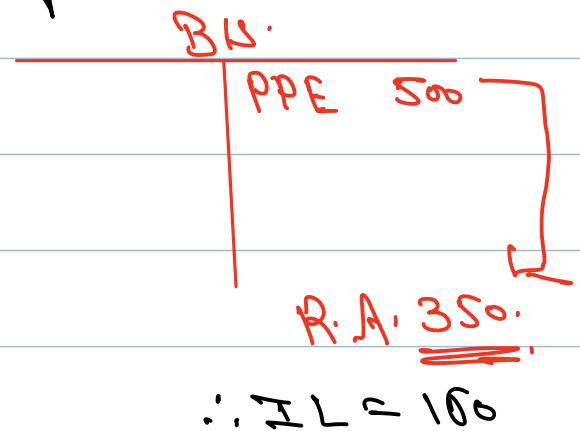
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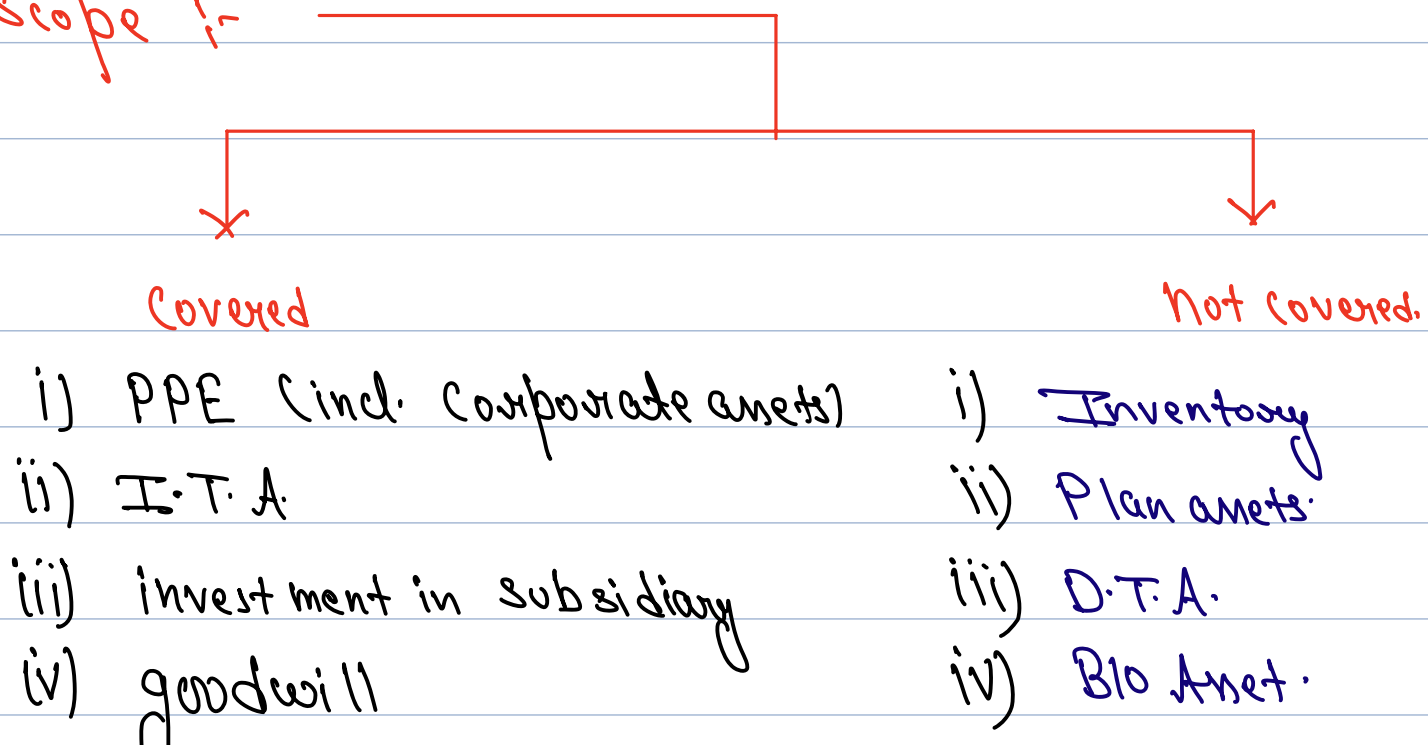
IND AS 36

## Impairment of Assets.

#1 Introduction :- Decline in the value of assets since its benefit generating capacity decreases or reduces.



#2 scope :-





v) Investment property

v) NCA HFS.

vi) Financial Assets.

### #3 objective.

Any Asset should not be carried in BIS above its Recoverable amount.

### #4 Measurement & Recognition :-

we need to follow 5 steps.

Step 1 :- check whether there are indicators of impairment or not.

External

a) Decrease in M.P. of asset

b)  $\Delta$  in

- ↳ political
- ↳ technical
- ↳ legal environment

due to which value of

Internal

a) asset is damaged

b)  $\Delta$  in usage

pattern  
c) decrease in

expected cash flow

asset decreases



c) increase in market R.O. int.

d) decrease in market Capitalisation.

∴ decrease in Net assets.

Step 2 :- if there are indicators then Do impairment test.



Check if  $CA > R.A.$  (means test is +ve)

then Book Imp. loss.

Step 3 :- calculation of Impairment loss.

C.A. as on Date of impairment.	(note-1)	xxx
less: Recoverable amount as on Date of imp.	(note 2)	xxx
	<u>Imp. loss</u>	<u>xxx</u>

Note 1 :- C.A. as on Date of impairment.

Original Cost

xxx



+/- Rev gain/loss upto d.o.I.

xxx

- Dep upto D.O.I.

xxx

C.A. as on D.O.I

Note 2 :- Recoverable amount as on D.O.Imp

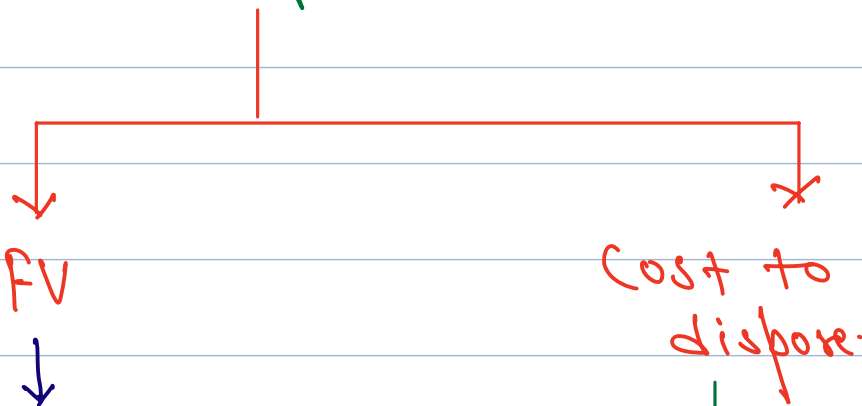
higher of

FV LCO

(Fair Value Less Cost of disposal)

OR

Value in use (VIU)



FV

it means F.V. @ which asset can be sold in active market as per IND AS 113.

Cost to dispose.

includes

- i) Commission
- ii) Brokerage.
- iii) Transaction cost.
- iv) Transport. cost.
- v) Selling exp.
- vi) legal fees
- vii) packaging cost.

exclude.

- i) I.Tax
- ii) Finance cost
- iii) Val<sup>n</sup> fees.

P.V. of future cfs	xxx
+ P.V. of salvage	xx
	<u>xxx</u>

VIU

Note:-

- a) cfs are expected/budgeted on date of impairment.
- b) cfs does not include cfs. expected from future improvements not yet committed.
- c) if asset is situated outside India, then  
↳ consider cfs in



foreign currency

↳ Consider foreign country disc. Rate.

↳ Calculate VIU in foreign currency.



then convert it



VIU in ₹  
Using Exch. Rates as  
on D.O.I. testing

if FVLCO is not available  
then  $RA = VIU$

↳ if prob. factor is  
given then

$$VIU = cfs \times pf \times pvf$$



if VIU is not  
available.



Then we can say that R.A.  
of asset cannot be  
determined.

\*\* Any Asset can be impaired  
individually only if it  
generates cashflows.

\*\* if not able to generate cfs.



individually then impairment of such asset will be done in CGUs.

## Step 4 Recognition of I.L.

a) I.L. is generally recognised in SoPIL under the dep. / amortisation.

b) However if there is R.R. (OCI-N.R.) related to impaired asset then

*first* I.L. is recognised in (OCI-NR)  
i.e. by Rev. surplus upto balance existing in it.  
*second* if any bal. then by SoPIL.

## c) Journal

1) I.L.	Dr	xx	
			To Asset/Prov of I.L. xx
2) R.R.	Dr		
PIL	Dr	(Bif)	
			To I.L. xx



PIM.

O.C.	100
- Dep (3)	<u>(30)</u>
C.A.	70
R.A.	110

Dep p.a = 10

RR = 40

- Dep	<u>(11)</u> ✓✓
C.A.	29
R.A.	<u>39</u>
I.Loss	<u>60</u>

Option I

(charge excem Dep with R.R)



i) R.R. Dr 1 ✓  
PIL Dr 10  
To PPE 11



Bal of RR = 39



Option II

(charge Dep. directly with PIL)

PIL Dr 11  
To PPE 11



Bal. of RR = 40





i) IL Dr 60  
To P.F.I.L. Cr 60

i) IL Dr 60  
To P.F.I.L. Cr 60

MENTORING  
HARSHIT DWIVEDI  
CA FOUNDATION | CA INTERMEDIATE | CA FINAL

ii) R.R. Dr 39  
PIL Dr 21  
To I.L. Cr 60

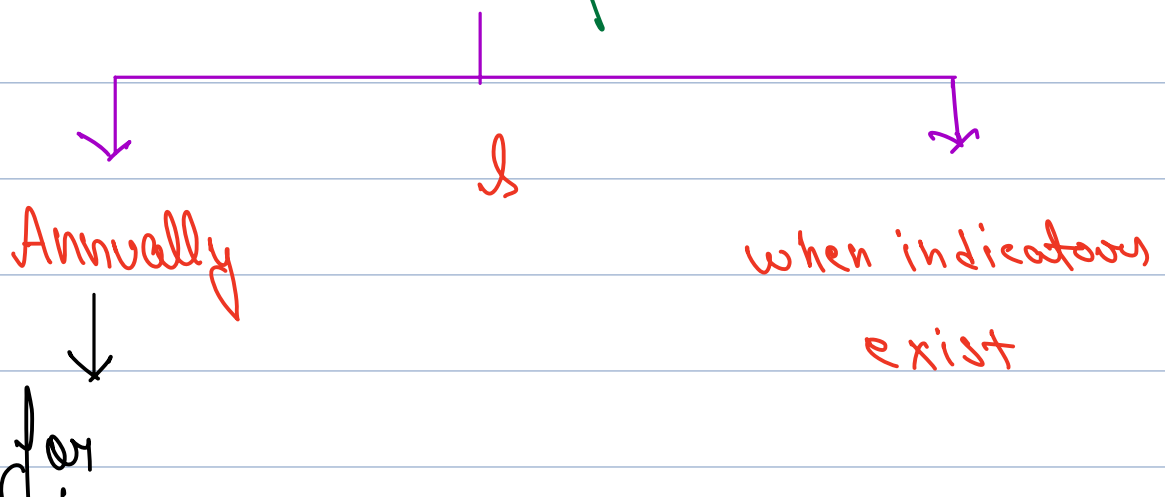
ii) R.R. Dr 40  
PIL Dr 20  
To I.L. Cr 60

Steps Revised C.A. after impairment

C.A. before Imp.	xxx
→ I.Loss	<u>(xx)</u>
Rev. C.A. of asset	<u>xxx</u>

Depreciation should be charged thereafter on Revised C.A.

Note :- when to do Impairment Test.

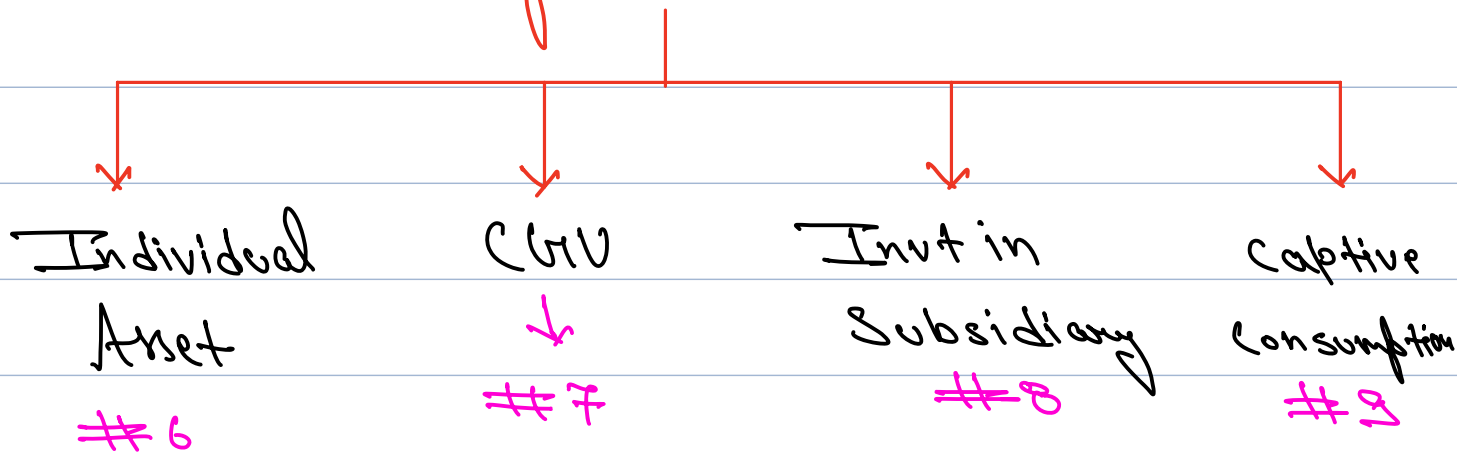




↳ goodwill  
 ↳ I.T.A. with infinite life  
 ↳ I.T.A. out of use.



## #5 Overview of standard



## #6 Individual Asset / Cash generating Asset.

### Question# 1

X LTD purchased PPE for RS. 1 lac on 1-4-23, its useful life is 10 years on 31-3-25, x ltd estimated FVLCD as RS. 65000 and VIU RS. 72000

Sol<sup>n</sup>:- Step 1 Impairment test

a) C.A. on 31-3-25

O.C. as on 1-4-23 100000

- Dep for 2 years (20000) 80000

$$\left( \frac{100000}{10} \times 2 \right)$$

b) R.A. on 31-3-25

i) FVLCD 65000



ii) VIU

₹2000

higher of i) & ii)

₹2000

c)  $\because$  C.A. of PPE  $>$  R.A. of PPE  
 $\therefore$  I.L. is there

Step 2 I.L.

C.A.	80000
R.A.	<u>72000</u>
I.L.	<u>8000</u>

Step 3 Journal

a) I.L. Dr 8000  
To PPE 8000

b) P/L Dr 8000  
To I.L. 8000

Step 4 Revised C.A.

C.A. before I.L.	80000
- I.L. Loss	<u>(8000)</u>
Rev. C.A.	<u>72000</u>

$$\text{Subsequent Dep} = \frac{72000}{8} = ₹ 9000$$



**Question# 2**

**ILL - 1 ICAI STUDY MATERIAL**

Carrying Amount of the building in the books of X limited on 31.3.2001 is ₹ 300 lacs. As on that date, value in use is ₹ 250 lacs and its fair value less cost of disposal is ₹ 238 lacs.

Show the treatment of impairment loss

Will the treatment change if revaluation reserve is standing in the books at ₹ 40 lacs?

Sol<sup>n</sup> :- Step 1 C.A on 31-3-2001 300 lacs.

Step 2 R.A. on 31-3-2001

a) FV LCD 238 lacs.

b) VIU 250 lacs.

higher of a) & b) 250 lacs.

Step 3 I.L.

C.A. 300

R.A 250

I.L. 50 lacs.

Step 4 Journal

w/o R.R.

i) I.L. Dr 50  
To PPE 50

ii) PIL Dr 50  
To I.L. 50

with R.R.

i) I.L. Dr 50  
To PPE 50

ii) R.R. Dr 40  
PIL Dr 10

## Question# 4

## ILL - 12 ICAI STUDY MATERIAL

Cost of asset is ₹ 56 lacs with useful life of 10 years. Upward Revaluation done last year of ₹ 14 lacs. Carrying amount at the beginning of the year is ₹ 27.3 lacs and recoverable amount was ₹ 12 lacs with life remaining 3 years.

Calculate

- Impairment Loss
- Depreciation for current year
- Show the treatment of Impairment loss

Sol<sup>n</sup> :-

₹ in lacs.

Step 1 C.A. 27.3

Step 2 R.A. 12

Step 3 I.L.

C.A. 27.3

R.A. 12

15.3

Step 4 Journal

1) I.L. Dr 15.3

To provision of IL / PPP 15.3

2) R.R. Dr 14

PII Dr 1.3

To I.L. 15.3

Steps Revised C.A.



$$\begin{array}{r}
 \text{C.A.} \quad 27.3 \\
 - \text{I.L.} \quad 15.3 \\
 \hline
 \text{R.C.A.} \quad 12
 \end{array}$$



$$\text{Dep. of 8th yr.} = \frac{12}{3} = 4 \text{ lacs}$$

**Question# 5****ILL - 3 ICAI STUDY MATERIAL**

Mars Ltd gives you the following information relating to PPE on 31.3.2004

- PPE was purchased on 01.04.01 for ₹ 20,000 lacs with Useful life of 8 years and with salvage value ₹ 500 lacs
- Details of cash flows are as under

2004-05	2005-06	2006-07	2007-08	2008-09
2000 LACS	3000 LACS	3000 LACS	4000 LACS	2000 LACS

- Discounting rate is 15%
- Fair value less cost to disposal is ₹ 10,000 lacs.

Calculate impairment loss and revised carrying amount as on 31.03.04

Sol<sup>n</sup>:-

Particulars	₹ in lacs	₹ in Lacs
1) C.A.	20000	
- Dep $(\frac{20000 - 500}{8} \times 3)$	<u>(17312.5)</u>	12687.5

2) R.A.

higher of

a) FVLC D	10000
b) VIU	

year	Cfs	PV@15%	P.V
04-05	2000	0.869	



05-06	3000	0.756
06-07	3000	0.657
07-08	4000	0.572
08-09	2000	0.497

9510



10000  
2687.5

Revised C.A.  $\Rightarrow$

CA	12687.5
- I.L.	(2687.5)
Rev. C.A.	<u>10000</u>

$$\text{Dep} = \frac{10000 - 500}{5} = 1900$$

eg-2 :-

CA = 100

R.A.

↑ i) VIU 0

ii) FVLCO (8)

0

I.L.

100

Option 1

Classify it as NCA  
HFS under INDAS 105

Option 2

As per INDAS  
16, PPE deprecy.



Is book I.L. as diff.  
blw C.A & R.A.

- hire asset of  
₹ 100 and recognise  
₹ 8 as expense  
in P/L when  
incurred.

**Question# 6**

**NOV - 18 EXAM**

A machine was acquired by ABC Ltd. 15 years ago at a cost of ₹ 20 crores. Its accumulated depreciation as at 31st March, 2018 was ₹ 16.60 crores. Depreciation estimated for the financial year 2018 - 2019 is ₹ 1 crores. Estimated Net Selling Price of the machine as on 31st March, 2018 was ₹ 1.20 crores 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 ₹ 1.40 crores as on 1st April, 2018 which is expected to decrease by 30 per cent by end of the financial year. Assuming that order conditions of relevant Ind AS for applicability of the impairment are satisfied

1. What should be the carrying amount of this machine as at 31st March, 2019?
2. How much will be the amount of write off (impairment loss) for the financial year ended 31st March, 2019?
3. If the machine had been revalued ten years ago and the current revaluation reserves against this plant were to be ₹ 48 lakhs, how would you answer to questions (i) and (ii) above?
4. If the value in use was zero and the company was required to incur a cost of ₹ 8 lakhs to dispose of the plant, what would be your response to questions (i) and (ii) above?

(Assuming no adjustment for impairment to be done for 2017- 18)

Soln :- i) C.A. as on 31-3-2019

(₹ in cr)

Original Cost	20	
- Dep. (Acc.)	<u>16.60</u>	
C.A. on 1-4-18	3.4	
- Dep. (c.y.)	<u>(1)</u>	2.40

ii) I.L.



C.A.

2.40

R.A.

i) FVLC D (1.20 - 20%) 0.96

ii) VIU (1.40 - 30%) 0.98

higher of i) & ii) is R.A.

I.L.



0.98  
1.42

iii) ricing

w/o R.R.

1) I.L. Dm 1.42  
To PPE 1.42

2) P/L Dm 1.42  
To I.L. 1.42

with R.R.

1) I.L. Dm 1.42  
To PPE 1.42

2) R.R. Dm 0.48  
P/L Dm 0.94  
To I.L. 1.42

iv) Cost to dispose = 8 Lakhs, VIU = 0, FV = 0

Calc<sup>n</sup> of I.L.

i) C.A.

2.40

ii) R.A.

a) VIU 0

b) FVLC D (8)

higher of a) & b)

I.L.

0  
2.40

Option 1  
 ↓  
 I.L. Under  
 IND AS 105  
 ⇒ 2.40

Option 2  
 ↓  
 Under IND AS 16  
 Derecognize PPE  
 of 2.40 Cr &  
 book exp. of 8  
 Lac in P/L  
 as incurred.

**Question# 7**

**ILL - 7 ICAI STUDY MATERIAL**

On 31.3.2001 XYZ limited makes following estimate of cashflows for one of its asset located in USA

YEAR	01-02	02-03	03-04
CASHFLOWS	\$80	\$100	\$20

Discounting rate in India is 15% and in USA is 10%

Exchange rate as on 31.3.01 is ₹ 45 / \$

Expected exchange rate on

31.03.02	31.03.03	31.03.04
₹ 48 / \$	₹ 51 / \$	₹ 55 / \$

Calculate Value in Use as on 31.3.2001

Sol<sup>n</sup>:-

year	cash of cfs	Dis. @ 10%	PV (\$)
01-02	80	0.909	73
02-03	100	0.826	83
03-04	20	0.751	15



171 \$



$$\therefore \text{VIU in INR on 31-3-01} = 171 \$$$

$$\times ₹ 45$$

$$= ₹ 7695$$

**Question# 9** **ICAI STUDY MATERIAL**

From the following details

YEAR	CASHFLOWS	PROBABILITY	DIS RATE
1.	1,000	10%	5%
2.	1,000	60%	5.25%
3.	1,000	30%	5.5%

TYK Q.9.

**Calculate Value in Use**

Sol<sup>n</sup> :-

Year	CFs	prob.	PVf	PVfact.	P.V.
1	1000	10%	5%	0.952	95.2
2	1000	60%	5.25	0.903	541.8
3	1000	30%	5.5%	0.812	243.6
				<b>VIU</b>	<b>880.6</b>

**Question# 10** **ICAI STUDY MATERIAL**

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, 2001 at a cost of ₹ 5,00,000 through a vendor financing arrangement on which interest is being charged at the rate of 10% per annum.
- During the year ended 31st March, 2003, East sold 10,000 steering wheels at a selling price of ₹ 190 per wheel.
- The most recent financial budget approved by East's management, covering the period 1st April, 2003 – 31st March, 2008, including that the company expects to sell each steering wheel for ₹ 200 during 2003-2004, the price rising in later years in line with a forecast inflation of 3 percent per annum.
- During the year ended 31st March, 2004, East expects to sell 10,000 steering wheels. The number is forecast to increase by 5 per cent each year until, 31st March, 2008.
- East estimates that each steering wheel cost ₹ 160 to manufacture, which includes ₹ 110 variable costs, ₹30 share of fixed overheads and ₹ 20 transport costs
- Cost are expected to rise by 1% during 2004-05 and then by 2% per annum until 31st March, 2008
- During 2005-06, the machine will be subject to regular maintenance costing ₹ 50,000.
- In 2003-04, East expects to invest in new technology costing ₹ 1,00,000. This technology will reduce the variable cost of manufacturing each steering wheel from ₹ 110 to ₹ 100

and share of fixed overheads from ₹ 30 to ₹ 15 (subject to availability of technology, which is still under development)

9. East is depreciating the machine using the straight line method over the machine's 10 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, 2008.

10. East has determined a pre-tax discount rate of 8% which reflects the market's assessment of the time value of money and the risk associated with the asset.

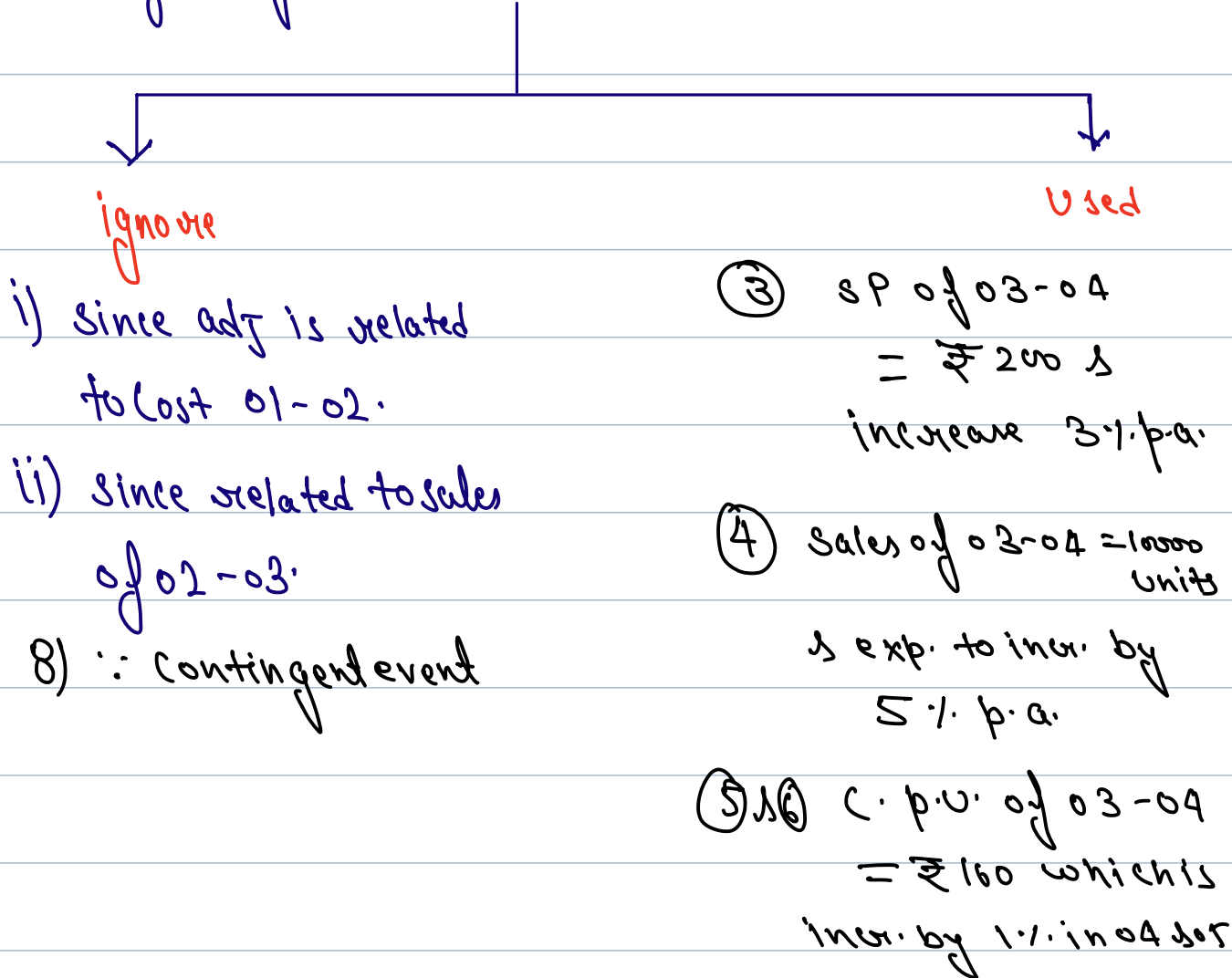
Assume tax rate is 30%

What is the value in use of the machine in accordance with Ind AS 36.



Sol<sup>n</sup>:- ① Our objective is to calculate VIU based on budget approved by mgmt for 1-4-03 to 31-3-08 i.e for 5 years. ∴ Ignore all adjustments that are not useful for calculation of VIU.  
Cashflow means Net cash flow for years 03-04 to 07-08.

## 2) Analysis of statements.





↳ 2% thereafter.

(7) Maintenance Cost = 5000  
05-06

(8) Salvage Value = 8000

(9) Dis. rate = 8%.

### 3) Statement showing Cal<sup>n</sup> of Cash flows:

Particulars	03-04	04-05	05-06	06-07	07-08
i) Qty sold (incr. by 5% p.a.)	1000	1050	11025	11576	12155
ii) S.p.p.u. (inc. by 3%)	200	206	212	219	225
iii) C.p.u. (inc. by 1% in 04-05 ↳ 2% thereafter)	160	162	165	168	171
iv) N.S.P. (ii - iii)	40	44	47	51	54
v) Misc. cash flows	—	—	(5000)	—	8000
<b>Net Cash flows (C1 x 4) + 5</b>	<b>40000</b>	<b>462000</b>	<b>468175</b>	<b>590376</b>	<b>736370</b>

### 4) Cal<sup>n</sup> of V I V

year	Cash flows	PV @ 8%	PV
03-04	400000	0.926	

04-05

46200

0.857

05-06

468175

0.794

06-07

590376

0.735

07-08

736370

0.681

Value in use

2073170

## Reversal of I.L. :-

- 1) I.L. recognised on an asset in earlier years can be reversed, if indicators have also reversed. s.

$$\text{its } C.A. < R.A.$$

- 2) maximum amount upto which reversal of I.L. is allowed

⇒ Reverse it upto original C.A. of asset on date of reversal, had there been no I.L. earlier.

3) eg 4 →

a) C.A.

10

b) R.A.

7

I.L.

3

New Revised C.A. = ₹ 10 - 3 ⇒ ₹ 7.

After few years C.A ⇒ ₹ 7 - 2 (Dep) ⇒ ₹ 5.  
(say ₹ 2.)

Original C.A. ⇒ ₹ 10 - ₹ 3 (Dep)  
(say ₹ 3.)

⇒ ₹ 7

Situation 1

R.A. = 6

Means lower than 7.

hence rev. of I.L. = 6 - 5.

⇒ ₹ 1 is allowed

Situation 2

R.A. = 11

means greater than

7 hence I.L.

Reversed = 7 - 5  
= 2 is allowed.

Conclusion ⇒ R.A. after should

be lower of

a) R.A.

b) O.C.A. (w/o I.L.)

S1

S2

6

11

7

7

6

7



## 4) Steps for Reversal



Step 1 :- Calculate C.A. as on D.O.R. of I.L.

Step 2 :- Calculate O.C.A. had there been No I.L.

Step 3 :- Calculate R.C.A. after Reversal of I.L.

- ↓
- i) R.A. as on D.O.R.
  - ii) Original C.A. (Step 2)

Step 4 :- Amount of Reversal of I.L.

Step 3 - Step 1

Step 5 :- Recognition of I.L.

→ Reversal of I.L. is generally recognised in P.L.

→ However if I.L. is recognised in R.R. (OCI) in earlier years, then Reversal of I.L. is firstly recognised in R.R. upto I.L. recognised in R.R.



in earlier years

Journal

i) Asset Dr

To I.L. Reversed



ii) I.L. Reversal Dr

To R. Swap. xxx

(upto I.L. in Rev. Swap in earlier year)

To P.L. xxx

(B/F)

Steps :- Revised C.A.

C.A. before Reversal xxx

+ Reversal of I.L. xx

xxx

Dep. will be charged on this Revised C.A. in future.

### Question# 11

X LTD purchased PPE for RS. 1 lac on 1-4-1990 its useful life is 10 years on 31-3-92, x ltd estimated FVLCD as RS. 65000 and VIU RS. 72000 On 31-3-1995 Recoverable amount of PPE is Estimated to be RS. 51000

Sol<sup>n</sup> :-

Step 1 :- Cal<sup>n</sup> of I.L. as on 31-3-25

C.A. as on 31-3-25  $\Rightarrow 100000 - \left(\frac{100000}{10} \times 2\right) \Rightarrow 80000$

R.A. as on 31-3-25  $\Rightarrow$  higher of



a) FV LCD

65000

b) VIU

72000

72000



Step 2 :- Cal<sup>n</sup> of Revised C.A as on 31-3-25

C.A.	80000
- I.L.	(8000)
Rev. C.A.	<u>72000</u>

Step 3 :- Cal<sup>n</sup> of C.A. as on 31-3-28

C.A. as on 31-3-25	72000
Dep. upto 31-3-28 $\left\{ \frac{72000}{8} \times 3 \right\}$	(27000)
C.A.	<u>45000</u>
R.A.	<u>51000</u>

means C.A < R.A.  
 $\therefore$  Rev. of Imp. exist.

Step 4 :- Original C.A. as on 31-3-28  
with out Imp.

C.A. as on 1-4-23	100000
Dep upto 31-3-28 $\left( \frac{100000}{5} \times 5 \right)$	(50000)

Step 5 :- Revised C.A. after Rev. as on 31-3-28

lower of

a) R.A on 31-3-28 5100

b) Original C.A. (w/o I.L.) 5000

(Step 4)

∴

5000

Step 6 :- Rev. of I.L.

C.A. on 31-3-28 4500

Rev. C.A. (Step 5)

Reversed

5000

5000

Step 7 :-

PPE

Dr

5000

To

I.L. 5000.

Step 8 :- Rev. C.A. after Reversed

C.A. on D.O.R. 4500

+ Reversal of I.L. 5000

5000

## Question# 12

1. Original cost of fixed asset on 01.04.17 is ₹ 10,000.

2. Life is 10 years with recoverable amount as on

• 31.3.18 ₹ 7,000

• 31.3.20 ₹ 9,000

CASE - 1 - Depreciation is SLM

CASE - 2 - Depreciation is 10% WDV method.

Step 1 :- Calc<sup>n</sup> of I.L. on 31-3-18

C.A.	$(\frac{10000}{10} \times 2)$	2000
R.A.		7000
	I.L.	<u>2000</u>

Step 2 :- Rev. C.A. on 31-3-18

C.A.	2000
- I.L.	<u>(2000)</u>
R.C.A.	<u>7000</u>

Step 3 :- C.A. as on 31-3-20

C.A. as on 31-3-18	7000
- Dep. $(\frac{7000}{10} \times 2)$	<u>(1555)</u>
C.A.	<u>5445</u>
R.A.	9000

∴ CA < RA.

∴ Indicator of Imp. is Reversed.

Step 4 :- Cal<sup>n</sup> of .C.A. w/o I.L.



Original C.A. 10000  
- Dep.  $\left\{ \frac{10000}{10} \times 2 \right\}$  (2000)  
8000

Step 5 :- Cal<sup>n</sup> of Revised C.A. after Rev. as  
on 31-3-20

a) R.A. 9000  
b) C.A. (w/o imp) 8000  
(Step 4)

$\therefore$  8000

Step 6 :- Rev. of I.L.

i) C.A. on 31-3-18 5445  
ii) C.A. (w/o imp) 8000  
Rev. 1555

Step 7 :- PPE Dr 1555  
To I.L. 1555

Step 8 :- Revised C.A. after Reversal.

C.A. before Rev. 5445

+ Reversal

1555

8000

HD



Question# 13

TYK Q. 6 SM, SIMILAR TO JULY 21 EXAM

X ltd purchased an asset on 01.04.01 for ₹ 100 lacs. It has useful life of 4 years with no residual value. Recoverable amount of asset is as follows:

31.3.02 – 60 lacs; 31.3.03 – 40 lacs and 31.3.04 – 28 lacs

Calculate impairment loss and reversal for all the three years.

Sol<sup>n</sup> :-

(₹ in lacs)

Step 1 Cal<sup>n</sup> of I.L. as 31-3-02

Cost	100
- Dep. $(\frac{100}{4} \times 1)$	(25)
C.A.	75
R.A.	60
I.L.	15

Step 2 :- Rev. C.A. on 31-3-02

C.A.	75
- I.L.	(15)
R.C.A.	60

Step 3 :- C.A. as on 31-3-03.

R.C.A. as on 31-3-02	60
- Dep $(\frac{60}{3} \times 1)$	(20)
C.A.	40





# Step 6 :- Reversal of Imp. Loss.

- i) C.A. On 31-3-04
- ii) C.A. (w/o imp)

20  
25  
5

Rev.

# Step 7 :- JIE

PPE Dr 5  
To I.L. 5

# Step 8 :- Rev. C.A. after Rev.

C.A. On 31-3-04 20

+ Rev. 5

25

## Question# 15

DEC 21

H Ltd. constructed a warehouse at a cost of ₹ 10 lakhs in 2015. It first became available for use by H Ltd. on 1st January 2016. On 29th January 2020, H Ltd. discovered that its warehouse was damaged. During early February 2020, an investigation revealed that the damage was due to a structural fault in the construction of the warehouse. The fault became apparent when the warehouse building leaked severely after heavy rainfall in the week ended 27th January 2020. The discovery of the fault is an indication of impairment. So, H Ltd. was required to estimate the recoverable amount of its warehouse at 31st December 2019. This estimate was ₹ 6,00,000.

Furthermore, H Ltd. reassessed the useful life of its warehouse at 20 years from the date that it was ready for use. Before discovering the fault, H Ltd. had depreciated the warehouse on the straight-line method to a nil residual value over its estimated 30-year useful life.

Seepage of rain water through the crack in the warehouse caused damage to inventory worth about ₹ 1,00,000 (cost price) and became un-saleable. The entire damaged inventory was on hand as at 31st December, 2019. H Ltd. has not insured against any of the losses.

It accounts for all its property, plant and equipment under the cost model. H Ltd.'s annual financial statements for the year ended 31st December, 2019 were approved for issue by the Board of Directors on 28th February, 2020.

You are required to:

Prepare accounting entries to record the effects of the events after the end of the reporting period in the accounting records of H Ltd. for the year ended 31st December, 2019. Kindly ignore tax impact;

Discuss disclosure requirement in above case as per relevant Ind AS; and Will your answer be different if there was no structural fault and damage to the warehouse had been caused by an event that occurred after 31 st December, 2019?

Sol<sup>n</sup> :-

i) Cal<sup>n</sup> of I.L. as on 31-12-2019



1-1-2016	Cost	1000000
31-12-2018	Dep. for 3 years. $\left(\frac{10L}{3 \text{ years}} \times 3 = 1L\right)$	(100000) (Dep p.a. = 33333)
1-1-2019	C.A.	900000
31-12-2019	Dep. $\left(\frac{900000}{17} = 52941\right)$	(52941) → 52941
31-12-2019	C.A.	847059
	R.A.	600000
	I.L.	247059

$$\text{Add<sup>n</sup> Dep. due to } \Delta \text{ in useful life} = 52941 - 33333 = 19608$$

ii) Journal as on 31-12-2019.

a) Dep. Dr 19608  
To warehouse acc dep. 19608

b) I.L. Dr 247059  
To warehouse 247059

### iii) Disclosure requirement.



a) The damage in the warehouse is an **adjusting event** for year ended 31-12-19. Since it provided evidence that structural fault existed from 2016 as on 31-12-2019 also.

b) Damage of inventory of ₹ 1 Lac is an **Non adjusting event**. Since damage is due to sewage of rain water in Jan 2020 where evidence was not existing on 31-12-2019.

∴ w/o off inventory in 2020 & disclose loss in notes to acc of 2019.

c) if there was no structural fault then  
i) useful life of warehouse would not have been revised. ∴ there would **not** have been **any add<sup>n</sup> dep.**

ii) moreover **No I.L.** would have been recognised in 2020.

iii) it will be considered as **Non**



## Adjusting event.

————— X —————



Note:- if R.A. of Asset becomes higher than C.A. only becoz of unwinding of Int on future cashflows (i.e. VIU) & Cfs remains same

then Reversal of Int Loss cannot be done.

## #7 Cash generating units [CGU] :-

a) meaning :-

CGU is

- Smallest
- identifiable
- group of assets
- which are capable of generating cfs.
- there are largely independent of other assets / group of assets.

eg → a) assets in 1 class room b) Cinema theatre.



- ↳ furniture
- ↳ A.V. equipment
- ↳ laptop.
- ↳ books.

- ↳ Hall
- ↳ screen

c) Packed Juice Co.

- ↳ Juicer
- ↳ packaging machine
- ↳ fruits.

Note-1 :- A CGU may consist of inventory  
↳ books, movie, CDs, fruits.

Note-2 :- A CGU may have I.T.A.  
↳ software of lectures in laptop.  
↳ Patents.

Note-3 :- A CGU may liability to it.  
↳ prov. for D&R.

( But it will not impair, its C.A. will be reduced from C.A. of asset.

Note-4 :- ACGU may have DTA but it will not impair.

eg-3. There are 3 Assets A, B & C. A can generate cashflows independently But B & C

Cannot generate cash flows w/o A.



Soln: then

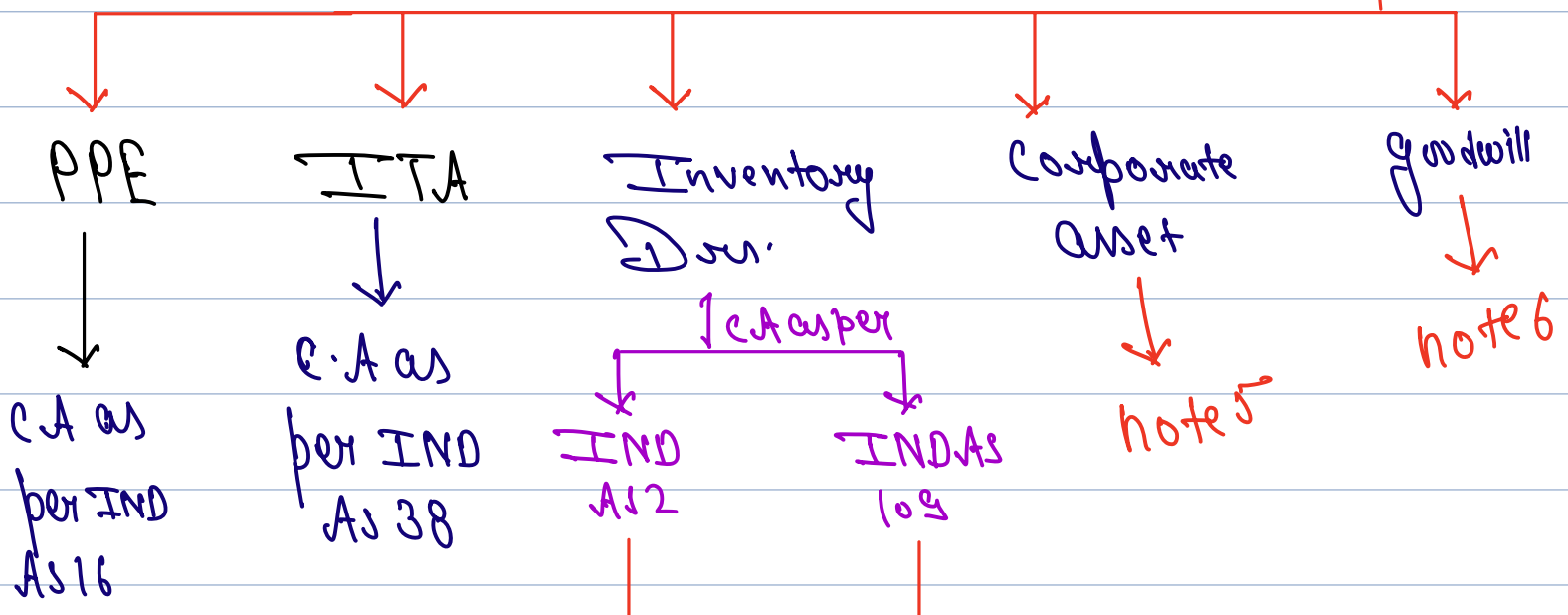
Ist  $\rightarrow$  A should be impaired individually.

II<sup>nd</sup>  $\rightarrow$  In calculating C.A. of CGU  
Revised C.A. of A + C.A. of B + C.A. of C.  
Should be considered.

b) why CGU?

Some times R.A. of individual asset cannot be determined.  $\therefore$  that asset does not generate cash flows independently. hence its use cannot be calculated.

In such cases impairment of Such assets.  
will be done in C.G.U.





These assets are  
not impaired under  
this standard



Note 5 :- Non CGU or Corporate asset

eg → HR dept, RSD Dept, Head office, godown;  
All dept, office Building, canteen.

$$C.A. = \text{Cost} - \text{Acc. dep. upto date}$$

Note 6 :- Goodwill

i) glw in SFS recognised only bcoz of  
biz. combination under IAS 103.

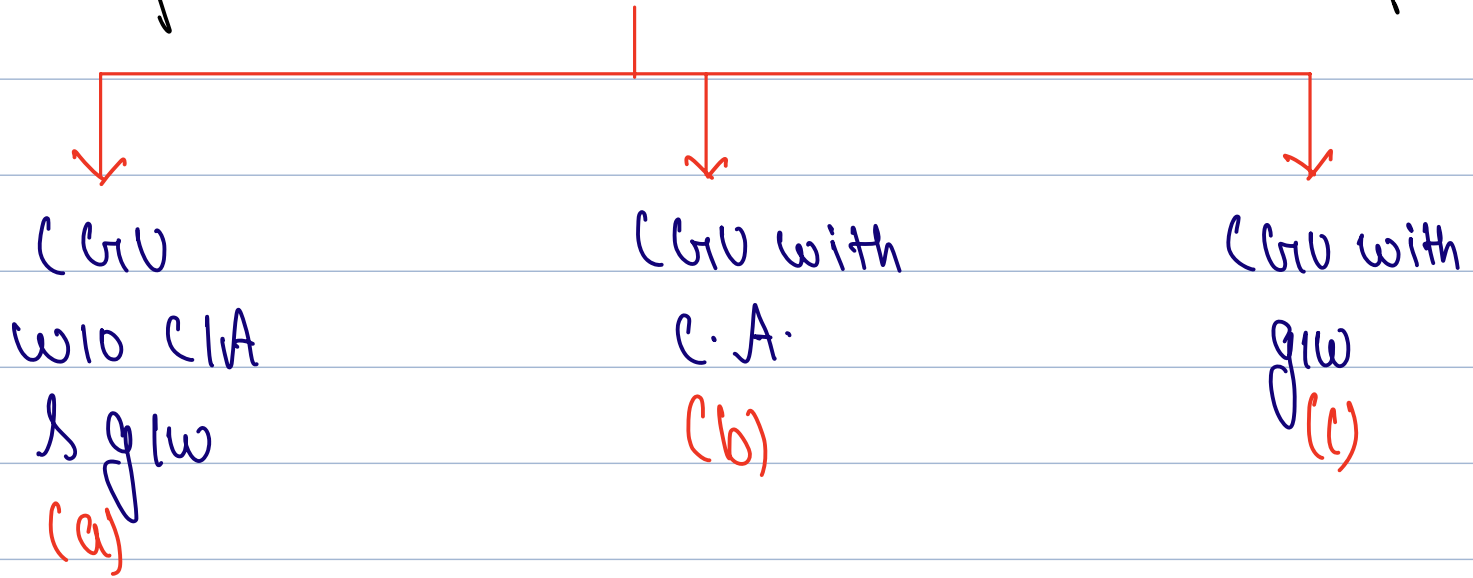
ii) glw does not generate cashflows independantly  
but it helps CGU generate extra cashflows.  
(Synergy)

$$\begin{aligned} \text{iii) C.A. of glw} &= \text{N.A.T.O.} - \text{P.C.} \\ &= \text{glw} \end{aligned}$$



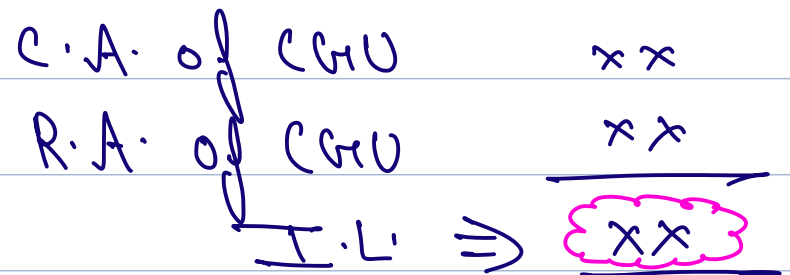
# c) How to impaired CGU

Impairment in CGU will be done in 3 parts.



## a) CGU w/o C.A. & G.W.

- i) if  $R.A > C.A.$  of CGU  $\rightarrow$  No I.L.
- ii) if  $R.A < C.A.$  of CGU  $\rightarrow$  Then I.L.



Such I.L. would be allocated to each asset in ratio of C.A. of Individual Asset but after subtracting / reducing share of I.L. from their Individual Asset

then Revised C.A. should not fall below



- i) Zero
- ii) FVLCD.

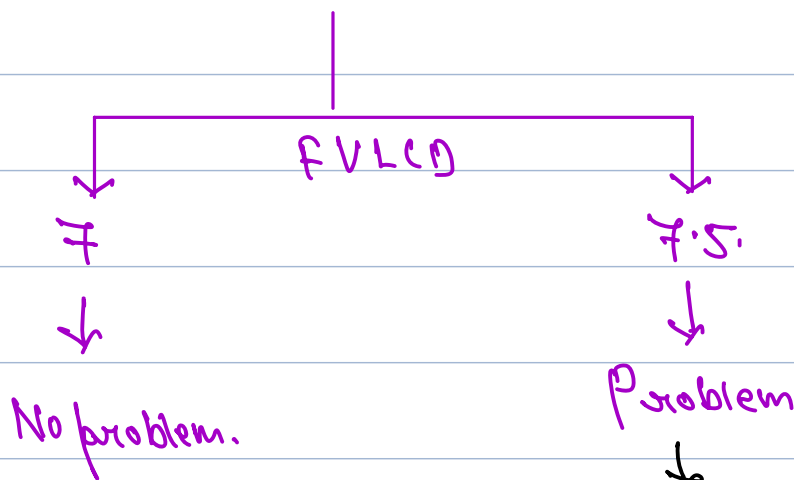


eg-4

	A1	A2	CGU
C.A.	10	15	25
R.A.			<u>18</u>
			<u>7</u>

I.L.  
(in 2:3)

	(2.8)	(4.2)	(7)
Revised C.A.	<u>7.2</u>	10.8	<u>0</u>



Revised C.A. can be min. 7.5.  
Since independantly it can cover 7.5.

$$\therefore \text{Maximum I.L. of } A_1 = 10 - 7.5 = 2.5$$

$$\therefore \text{Excess of I.L. of } A_1 = 2.8 - 2.5 = 0.3$$



Allocate to A2.



if 0.3 cannot be allocable to A2 then it will remain unallocable.

(No Q. in ICAI posted yet.)

### Question# 17

CA of assets under CGU are

P/M = 50000

Equipment = 30000

Software = 20000

Inventory = 40000

DTA = 5000

RA of CGU = 115000

Cal Rev CA of I.A

Sol<sup>n</sup>:- Step 1 CA<sup>m</sup> of I.L. of C.G.U.

C.A. of CGU

P/M 50000

Equipment 30000

Software 20000

Inventory 40000

DTA. 5000 145000

R.A. of CGU 115000

I.L. 30000

I.L. of ₹ 30000 should be allocated to P/M, Eq, Software in ratio of C.A.



## Step 2. Calc<sup>n</sup> of Revised C.A.

	P/M	Equipment	Software	Inv.	D.T.A.
C.A.	50000	30000	20000	40000	5000
- I.L. (5:3:2)	(15000)	(9000)	(6000)	—	—
	$\left(\frac{30000}{10} \times 5\right)$	$\left(\frac{30000}{10} \times 3\right)$	$\left(\frac{30000}{10} \times 2\right)$		
R.C.A.	35000	21000	14000	40000	5000

### Question#18

an entity which shows indicators of impairment of furniture but it does not have its VIU independently CA of furniture ₹50000.

The smallest group of Assets that have independent CFS are P/M and Equipment having C.A. of ₹300000 & ₹4000 in B/s.

Net Selling price of furniture 30000

NSP of P/M 270000

(with the help of furniture & eq.)

R.A of equipment 0

Calculate IL if

1. RA 500000 ✓
2. RA 290000 ✓
3. RA 370000 H.W.

Sol<sup>n</sup>: Case 1 is R.A.  $\Rightarrow$  500000

Step 1 Calc<sup>n</sup> of I.L. of CGU

C.A. of CGU (F + P/M + Eq.)	390000
R.A. of CGU	50000

$\therefore$  No I.Los.



$\therefore R.A. > C.A.$  of Co.  $\therefore$  No I.L.



Case 2. R.A. = 290000

Step 1 Calc<sup>n</sup> of I.L. of Co

C.A. of Co (F + PIM + Eq.)	390000
R.A. of Co	<u>290000</u>
I.L.	<u>100000</u>

Step 2 maximum I.L. of Imp. an.  
(possible only if N.S.P. of I.A. is given)

Particulars	Furniture	PIM	Equip.
a) C.A.	50000	300000	40000
b) Share of I.L. (5:30:4)	<u>(12821)</u>	<u>(76923)</u>	<u>(10256)</u>
c) R.C.A.	37179	223077	29744
d) Excess of I.L. of P.M. ₹ 46923 (270000 - 223077)			
allocated to JSR in 5:4	<u>(26068)</u>	<u>+ 46923</u>	<u>(20855)</u>
e) Rev. C.A.	11111	270000	8889

g) Excess of I.L. of  
 furniture ₹ 18889  
 (30000 - 11111)

+18829

—

(8889)

allocated to eq.  
 restricted to  
 ₹ 8889.

g) R. l. A.

30000

270000

0

h) I.L. on allocated

20000

30000

40000

(A-g)

Case - 3

R. A.

270000

(H.W.)

**Question#19**

CGU	CA	LIFE
A1	4 L	10 years
A2	6 L	20 years

RA of CGU = 8 Lacs

RA of CGU after 2 years = 10 Lacs

Cal I.L & reversal of I.L Of CGU

Sol<sup>n</sup> :- Step 1 Cal<sup>n</sup> of I.L. of CGU

C.A. of CGU	1000000
R.A. of CGU	<u>800000</u>
I.L.	<u>200000</u>

Step 2 :- maximum I.L. of Ind. Asset.

Not available

∴ FVLCD of I.A is not available.

Step 3 :- Cal<sup>n</sup> of R.C.A.

Particulars	A1	A2	CGU
Original C.A.	400000	600000	1000000
sh. of I.L. (2:3)	<u>(80000)</u>	<u>(120000)</u>	<u>(200000)</u>
Rev. C.A.	<u>320000</u>	<u>480000</u>	<u>800000</u>

Step 4. Cal<sup>n</sup> of Rev. C.A. & Reversal of I.L. after 2 years.

	A1	A2	CGU.
a) C.A.	256000	432000	688000



$$A_1 = 320000 \times \frac{8}{10}$$

$$A_2 = 480000 \times \frac{18}{20}$$

b) original C.A. w/o impairment.

320000

540000

860000

$$A_1 = 4L \times \frac{8}{10}$$

$$A_2 = 6L \times \frac{18}{20}$$

c) R.A. after 2 years

1000000

d) Revised C.A.

320000

540000

860000

(lower of B.S.C)

e) Reversal of I.L.

~~64000~~

~~108000~~

(d - e)

35856

136144

171000  
in  
(2048:777)

in the ratio of individual assets

C.A. along with their remaining useful life in

Case of CRO ind-Asset

(256x8 : 432x18)

(2048 : 7776)

f) maximum Rev. of 64000 108000 172000  
I.Loss allowed.

g) ∴ Reversal costed 35856 108000 143856  
(lower of @sf)  
(Reversal is of 136194 but it is restricted to 108000)

steps calc<sup>n</sup> of Revised C.A. after Reversal.

	A1	A2	CGU
C.A.	256000	432000	688000
+ Reversed	<u>35856</u>	<u>108000</u>	
	<u>291856</u>	<u>540000</u>	

### Question#20

A CGU consists of 3 assets namely P/M 50000, Furniture 30000 and Equipment 20000 there is an indication of impairment of P/M & furniture but Furniture cannot generate CFS independently

	VIU	FVLCD
P/M	40000	38000 ✓
Furniture	-	25000 ✓

RA of CGU = 80000

Sol<sup>n</sup> :- steps calc<sup>n</sup> of I.L. of P/M.

∴ it generates cash flows:

a) C.A. of PIM 50000  
b) R.A.

i) VIU 40000

ii) FVLC 38000

higher of VIU & FVLC

I.L.

40000

10000

$$\text{Rev. C.A. of PIM} = 50000 - 10000 = 40000$$

Step 2 Calc of I.L. of CGU

a) C.A. of CGU (40000 + 30000 + 20000) 90000

b) R.A. of CGU 80000

I.L. of CGU

10000

Step 3 maximum I.L. (of Ind. assets)

a) C.A.

Furniture 30000

Equip. 20000

b) FVLC

25000

0

5000

20000

Step 4 Rev. C.A.



	PIM	Furni	Equipm.
a) C.A.	50000	30000	20000
b) I.L. of PIM	(10000)		
c) I.L. of CRU blw F&E. in 3:2		(6000)	(4000)
d) excess I.L. of furniture = ₹ 1000 (6000 - 5000) allocated to Equipment		7000	(1000)
e) R.C.A.	<u>40000</u>	<u>25000</u>	<u>15000</u>
f) I.L. (a-e)	<u>10000</u>	<u>5000</u>	<u>5000</u>