AS 28

Impairment OF ASSETS

1) Impairment means reduction in the value of Asset beyond Depreciation.

2) Depreciation is mandatory to Charge annually.

But Impairment is possible only when there are Certain Indicators due to which Entity feels that Recoverable Amt of Asset Could be lower than the Carrying Amt.

3) Journal Entry

Depreciation	Impairment
a) Depreciation A/c Dr. To Asset a/c	Impairment Loss Dr. To Asset a/c
b) P&L a/c Dr. To Depreciation	Revaluation Reserve Dr. (1st priority) P&L Dr. (2nd priority) To Imp. Loss A/c

4) How to Calculate Impairement Loss ?

Impairement Loss = Carrying Amt (CA) − Recoverable Amt (RA)

Carrying Amt ⇒ Book Value after Charging Depreciation till date.

Recoverable Amt. ⇒ Higher of :–

a) Net Selling Price of Asset (NSP) ; (or)

b) Value in Use (VIU)

Asset Ko Use (or) Sale Karna Se Maximum Kitna Amt Recover Ho Sakta Hai !

Recovery on Sale of Asset

Recovery on Further Use of Asset

5) Net Selling Price :–

5 Cr. Market Value
(−) Selling Expenses } NSP

Selling Exp :- Expenses which are necessary to bring the Asset into Saleable Condition

Legal & documentation exp., Stamp duty Brokerage/Commission, packaging exp. etc.

But Employee Termination exp. are not treated as Selling exp.

6) **Value in Use :-** Sum of Present Value of Net Future Cash inflows to be generated on Further Use of Asset including residual value.

Following Cash Flows are not to be included in VIU :-

a) Income Tax payments/Refunds in Future

b) Collection expected from Current Debtors in future

c) Payments expected to Current Creditors in Future

d) any Cash Flows expected from proposed Business Acquisitions, Mergers etc.

7) Steps to Calculate Impairment Loss of Individual Asset :-

Step 1: Calculate Carrying Amount of Asset as on Balance Sheet (After charging depreciation)

Step 2: Calculate Recoverable Amount of Asset (Higher of NSP & VIU)

Step 3: If Carrying Amount is higher than Recoverable Amount then difference is Impairment Loss

Step 4: Treatment of Impairment loss as under:

- <u>If Asset belongs to Cost Model</u> – Charge the Impairment loss to P&L A/c
- <u>If Asset belongs to Revaluation Model</u> – Charge the impairment loss to revaluation surplus if available and remaining loss to P&L A/c

Step 5: Calculate Revised Carrying Amount of Asset after Impairment for the purpose of further depreciation in future. (CA before impairment – Impairment loss)

<u>Note</u> :- If NSP is not available, the Recoverable Amt is equal to VIU.

However, if VIU is not determinable then RA Can not be equal to NSP. If VIU is not available, then it is assumed that Asset is not Capable of generating Cash Flows Individually.

↓

In such Case, Impairement Testing shall be made For CGU (Cash Generating Unit).

What is CGU ⇒ A small Group of Assets which Combined together and Capable of generating VIU.

Examples :- Factory, a Subsidiary Co., Branches, Food outlets etc.

8) Impairment Loss of CGU :-

CGU Consist of multiple Assets.

Imp. Loss of CGU = CA of CGU — RA of CGU

Example 3:

A CGU Consist of three Assets A. B C, having total Recoverable Amount of Rs. 25,00,000 and Carrying Amount are as under:

	Carrying Amt.
A	12,00,000
B	8,00,000
C	10,00,000

Calculation of Impairment Loss	
CA Of CGU	30,00,000
(-) RA OF CGV	25,00,000
Impairment Loss	**5,00,000**

As per AS 28, Impairment loss of CGU shall be allocated to Individual Assets of CGU in proportion of their respective carrying amounts:

A's Impairment Loss	5,00,000 × 12/30	2,00,000
B's Impairment Loss	5,00,000 × 8/30	1,33,333
C's Impairment Loss	5,00,000 × 10/30	1,66,667

CGU Assets = Main Assets (+) Allocated Goodwill (+) Allocated Corporate Assets

Goodwill = Can-not be Tested for Impairement Individually. Goodwill should be allocated to all CGUs on reasonable basis.

Corporate Assets = Those Assets which help all CGUs to generate Cash. Corp. Assets are also allocated to CGUs on reasonable basis.

Treatment of Impairement Loss of CGU

First of all W/OFF allocated Goodwill

Remaining Impairement Loss shall be allocated to all other Main Assets including Corporate Assets in the Ratio their Carrying Amt.

Allocation of Goodwill & Corporate Assets to CGU

Goodwill

1st priority ⇒ as per the ratio given in Question

2nd priority ⇒ in the Ratio of Fair values of each CGUs

Corporate Assets

1st priority ⇒ as per the Ratio given in Question.

2nd priority ⇒ As per the below ratio :—

$\underbrace{CA \times \text{Useful life}}_{CGU\,1} : \underbrace{CA \times \text{Useful life}}_{CGU\,2}$

Note:- Goodwill is amortised over maximum 5 yrs period (SCM).

Example :-

Asset	(BV) Amt.	CGU
Machine 1	15,00,000	1
Machine 2	9,00,000	2
Building 1	30,00,000	1
Building 2	38,00,000	2

Goodwill = 600000 (allocation ratio 1:1)

Corporate Assets = 750000 (allocation ratio 3:2)

Recoverable Amt of CGU 1 = 45,00,000
CGU 2 = 40,00,000

Solution :-

Step 1 :- Carrying Amt of CGUs

	CGU 1	CGU 2
Machine	1500000	900000
Buildings	30,00,000	38,00,000
Corp. Assets allocated	450000	300000
Goodwill allocated	3,00,000	3,00,000
Total CA	52,50,000	53,00,000

	CGU 1	CGU 2
Step 2 :- Recoverable Amt	45,00,000	40,00,000

Step3:- Impairement Loss = CA - RA

	CGU 1	CGU 2
Impairement Loss (Step 1 - 2)	7,50,000	13,00,000
(-) Goodwill allocated	3,00,000	3,00,000
Remaining Impair. Loss =	4,50,000	10,00,000

(allocate in the Ratio of CA)

	CGU 1	CGU 2
Machines	$450000 \times \frac{1500000}{4950000}$ 136364	$10,00,000 \times \frac{900000}{50,00,000}$ 1,80,000
Buildings	$450000 \times \frac{3000000}{4950000}$ 2,72,727	$10,00,000 \times \frac{38}{50}$ 7,60,000
Corporate Assets	40909	60,000

Step4:- Revised CA (Old CA - I/L)

	CGU1	CGU2
Machine	13,63,636	720000
Building	27,27,273	30,40,000
Corporate Asset	409091	2,40,000

9) What if Goodwill & Corporate Assets are not allocable to CGU?

Follow "Bottom up" approach First & then "Top Down" approach.

Bottom up ⇒ Impairment of CGUs Except Unallocable Goodwill & Corporate Asset.

Top Down ⇒ Revised CA (after Bottom up Impair) of all Assets
(+) Unallocable Goodwill & Corp. Ass.

Total CA of Entity as Whole
(−) Total RA of Entity as whole

Additional Impairment Loss

First priority "Unallocable Goodwill"

Remaining Loss "Unallocable Corp. Asset"

(Refer Q202)

(Refer Pg no. 9.5 of Trump for Steps)

10) Reversal of Impairment Loss

- Goodwill Once Impaired Shall never be reversed.
- For Other Assets, Impairment Loss Can be reversed if Recoverable Amt. is Higher.

Steps to Calculate Reversal

Step 1 :- Calculate Current Carrying Amt of Asset immediately before reversal

Step 2 :- Recoverable Amt

Step 3 :- Carrying Amt of Asset if there were No Impairment earlier

Step 4 :- Reversal upto ⇒ Lower of Step 2 & Step 3

→ itna Hona Chahie after reversal

Step 5 :- Reversal Amt ⇒ Difference between Step 1 & Step 4

Journal Entry :-

Asset a/c Dr.
  To RR
  To P&L

11) Indicators of Impairment

External Indicators :- MCQ

1. Asset's MV Significantly declined
2. Adverse effect on Business due to Change in Technologia (or) Legal Enviroment
3. Market Rate of Interest is Increased
4. When MV Net Worth is lower than BV Net Asset
   → means Assets are Over valued

Internal Indicators

1. Asset is physically demaged
2. Asset is becoming idel due to Restructuring of Business
3. Asset's Economic Performance is worst than Expected
4. Asset's Useful life is reduced