

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 Amount of Asset could be lower than the Carrying Amount.

3) Journal Entry

Depreciation



a) Depreciation A/c Dr.
To Asset a/c

Impairment



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 Impairment Loss?

$$\text{Impairment Loss} = \text{Carrying Amt} - \text{Recoverable Amt}$$

CA RA

Carrying Amt $\Rightarrow$ Book Value after Charging Depreciation till date.

Recoverable Amt. $\Rightarrow$ Higher of :-

Asset ko Use (or)
Sale Karna se
Maximum Kitna
Amt Recover Ho
Sakta Hai!

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

b) Value in Use (VIU)

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
Future Cash inflows $\rightarrow$ Net to be generated on further
Use of Asset including residual value.

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

- Income Tax payments / Refunds in future
- Collection Expected from Current Debtors in future
- Payments Expected to Current Creditors in future
- any Cash flows expected from proposed Business Acquisition, 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:

- If Asset belongs to Cost Model - Charge the Impairment loss to P&L A/c
- If Asset belongs to Revaluation Model - 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)

Note :- If NSP is not available, the Recoverable Amount 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, Impairment Testing shall be made for CGU (Cash Generating Unit).

What is CGU $\Rightarrow$ 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.

$$\text{Imp. Loss OF CGU} = \text{CA OF CGU} - \text{RA OF CGU}$$

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 CGU	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	$5,00,000 \times 12/30$	2,00,000
B's Impairment Loss	$5,00,000 \times 8/30$	1,33,333
C's Impairment Loss	$5,00,000 \times 10/30$	1,66,667

$$\text{CGU Assets} = \text{Main Assets (+) Allocated Goodwill (+) Allocated Corporate Assets}$$

Goodwill = Can-not be Tested for Impairment 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 Impairment Loss of CGU

First of all
W/OFF allocated
Goodwill

Remainning Impairment
Loss shall be allocated
to all other Man
Assets including Corporate
Assets in the Ratio
their Carrying Amt.

Allocation of Goodwill & Corporate Assets to CGU

Goodwill



1st priority $\Rightarrow$ As per the Ratio
given in Question

2nd priority $\Rightarrow$ in the Ratio of
Fair values of
each CGUs

Corporate Assets



1st priority $\Rightarrow$ As per the
Ratio given in
Question.

2nd priority $\Rightarrow$ As per
the below Ratio :-

$$\frac{CA \times \text{Useful life}}{CGU 1} : \frac{CA \times \text{Useful life}}{CGU 2}$$

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

<u>Example:-</u>	<u>Asset</u>	<u>(BV) Amt.</u>	<u>CGU</u>
	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

	<u>CGU 1</u>	<u>CGU 2</u>
Machine	15,00,000	9,00,000
Buildings	30,00,000	38,00,000
Corp. Assets allocated	45,00,000	30,00,000
Goodwill allocated	3,00,000	3,00,000
	<u>52,50,000</u>	<u>53,00,000</u>
Total CA		

	<u>CGU 1</u>	<u>CGU 2</u>
<u>Step 2:- Recoverable Amt</u>	45,00,000	40,00,000

Step 3:- Impairment Loss = CA - RA

	<u>CGU 1</u>	<u>CGU 2</u>
Impairment Loss (Step 1 - 2)	7,50,000	13,00,000

(-) Goodwill allocated	<u>3,00,000</u>	<u>3,00,000</u>
Remaining Impair. Loss (allocate in the ratio of CA)	<u>4,50,000</u>	<u>10,00,000</u>

Machines	$\frac{4,50,000 \times 15,00,000}{49,50,000}$ 13,63,636	$\frac{10,00,000 \times 40,00,000}{50,00,000}$ 8,00,000
----------	--	--

Buildings	$\frac{4,50,000 \times 30,00,000}{49,50,000}$ 27,27,273	$10,00,000 \times \frac{38}{50}$ 7,60,000
-----------	--	--

Corporate Assets	40,909	80,000
------------------	--------	--------

Step 4:- Revised CA (OLD CA - I/L)

	<u>CGU 1</u>	<u>CGU 2</u>
Machine	13,63,636	7,20,000
Building	27,27,273	30,40,000
Corporate Asset	40,909	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 $\Rightarrow$ Impairment of CGUs except
Unallocable Goodwill & Corporate
Asset.

Top Down $\Rightarrow$ Revised CA (after Bottom up Impair)
of all Assets

(+) Unallocable Goodwill & Corp. As.

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 up to $\Rightarrow$ Lower of Step 2 & Step 3

$\rightarrow$ itna Hona Chahie after Reversal

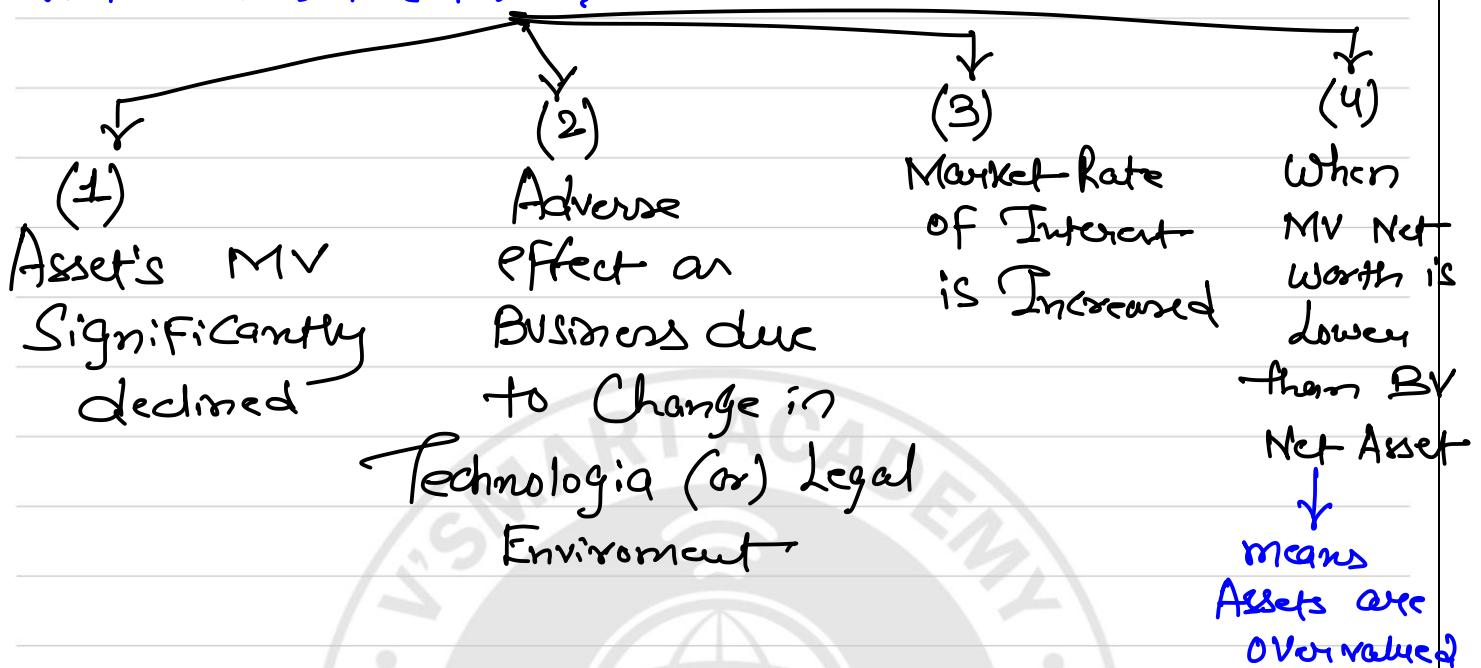
Step 5:- Reversal Amt $\Rightarrow$ Difference between Step 1 & Step 4

Journal Entry :-

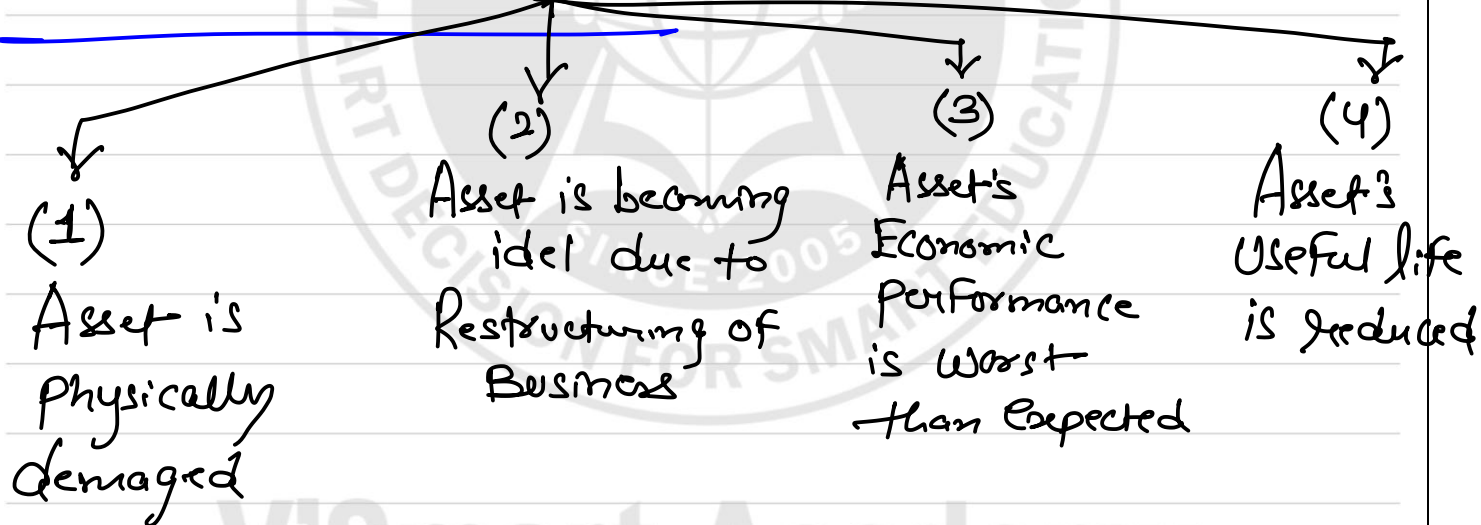
Asset a/c Dr.	
To RR	
To P&L	

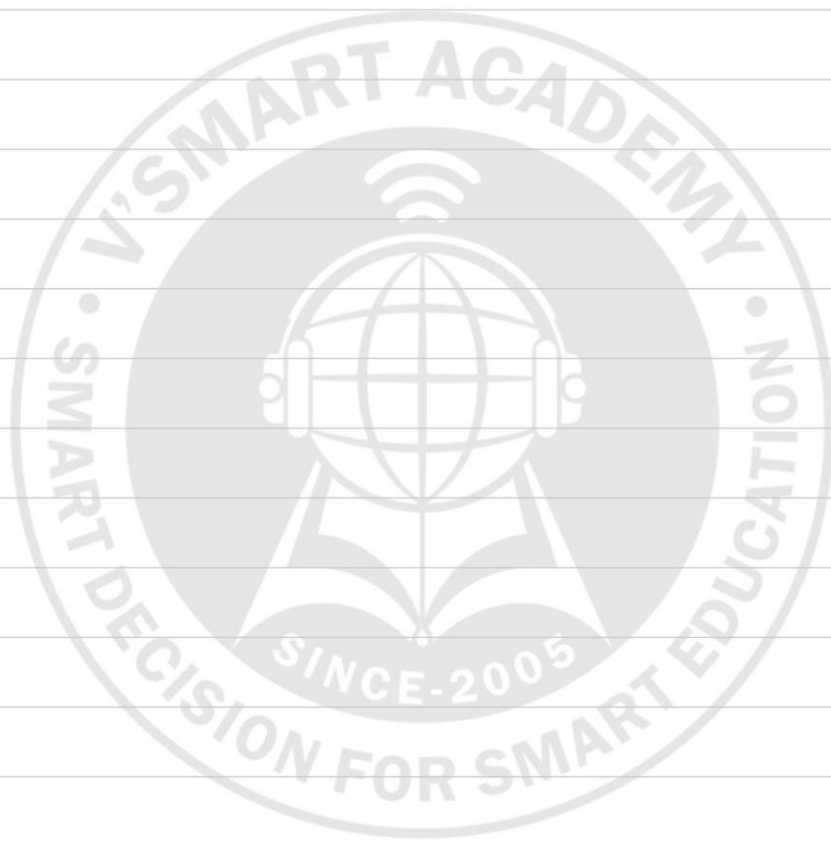
11) Indicators of Impairment

External Indicators :- MCQ

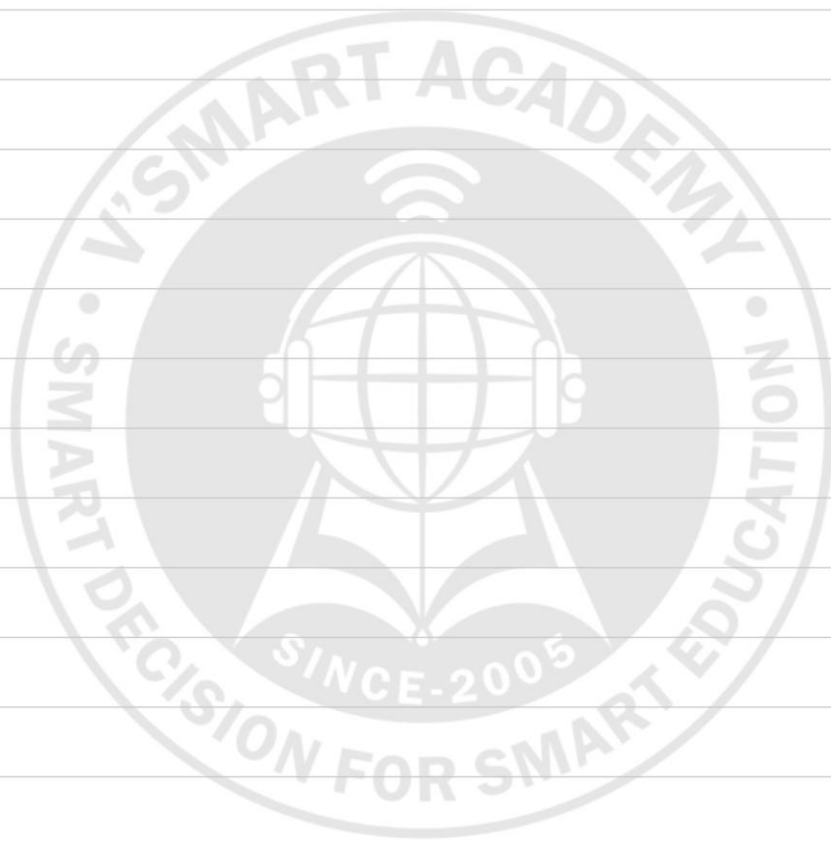


Internal Indicators

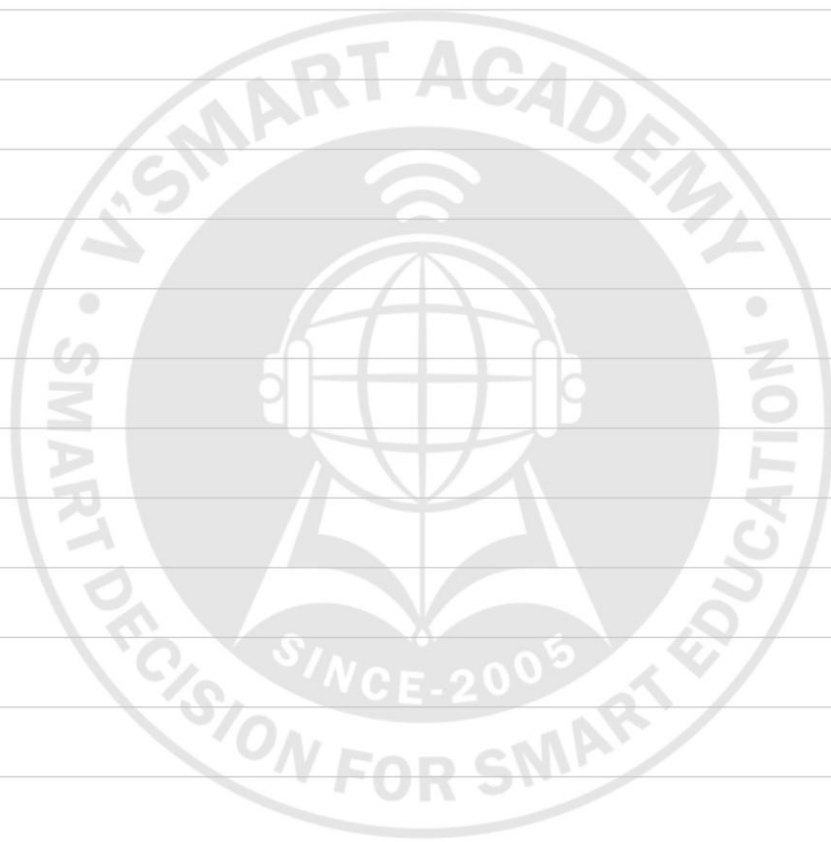




V'Smart Academy



V'Smart Academy



V'Smart Academy