AS-28: IMPAIRMENT OF ASSETS

L26

Asset : PPE → AS:10
Intangible Asset → AS-26
Investment Property → AS-13

Carrying amount at the end of FY (Book Value) = 200000

Recoverable Amount = 150000

50000 → Impairment Loss : recognised

Revised Carrying Amount = 200000 − 50000 = 150000

AS-28 is applicable when carrying amount of the assets exceeds the recoverable amount of the asset.

Carrying Amount > Recoverable Amount

The amount by which carrying amount exceeds recoverable amount is called Impairment Loss.

Impairment Loss is debited to P&L a/c except in case of prior revaluation.

This AS deals with only reduction in value of asset.

The meaning of impairment is reduction in value of asset.

Carrying Amount :-

	Cost	= 300000
−	Accumulated Depreciation	= 100000
−	Impairment Loss	= 50000
	Carrying Amount → Book Value.	

Recoverable Amount :- Higher of the two :-

Net Selling Price

→ Selling Price
− Cost of disposal

Value in use

→ Present Value of Expected future Cash flows
+

Net Selling Price

Present Value of Salvage Value

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Example :- Bittu ltd. had a PPE with the expected cash flows as follows :-

Y1	500000
Y2	600000
Y3	300000
Y4	500000
Y5	400000

Cost of capital (Interest Rate) = 12%.

The PPE can be disposed off for 250000 at the end of year 5. Calculate the value in use of the PPE.

Solution :- Calculation of value in use

Year	Cash Flows	Discounting factor (PV of ₹1)	Discounted Cashflows (Present Value of Cash flows)
1	500000	0.8928	446400
2	600000	0.7972	478320
3	300000	0.7118	213540
4	500000	0.6355	317750
5	400000	0.5674	226960
5	250000	0.5674	141850
	2550000		1824820

12%

Y0 Y1 Y2

x = 0.8928 1

100 112 125.44 140.49

Calculator :- $\frac{1}{1.12}$ ÷ = = = = =

0.8928 0.7972 0.7118 0.6355 0.5674

Value in use of the PPE is ₹ 1824820

Example :- Suppose in the above example the selling of the asset is ₹ 20lakh and the disposal cost is ₹ 50000. Calculate Recoverable Amount.

Solution :-

Recovarable Amount = Higher of
1. Net Selling Price
2. Value in Use.

Net selling Price : 1. Selling Price = 2000000
2. less: cost of selling : 50000
19 50000

Value in Use : 1824820 (calculated in previous example)

Hence, Recoverable Amount = ₹ 1950000.

Example :-

The carrying amount of a machine is ₹ 500000.
The machine will generate a cash flow from its expected use as follows :-
Y_1 = 50000
Y_2 = 100000
Y_3 = 100000
Residual value of the machine is ₹ 20000.
Interest Rate = 8%.

If the machine is disposed off today, then it can be sold for ₹ 530000.
The expected cost of disposal will be ₹ 40000.

Calculate Impairment Loss if any.

Solution :-

Impairment Loss = Carrying Amount − Recoverable Amount
= 500000

Higher of
Net Selling Price: 490000
Value in use: 227281

1. Net selling Price :- Selling Price = 530000
− Cost of selling = 40000
490000

2. Value in use :

Year	Cash flow	(8%) Discounting factor	10%	Discounted cash flow	
1	50000	0.9259	0.9091	46295	45455
2	100000	0.8573		85730	
3	100000	0.7938		79380	
3	20000	0.7938		15876	
				227281	

$\frac{1}{1.08}$ = = =

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Impairment loss = 500000 - 490000
= 10000.

Journal Entry :- P&L (Impairment loss) Dr.
To, PPE
(Assuming there is no prior revaluation)

Example :- Kesariya ltd. purchased a machine on 1.4.17 for ₹ 1000000 and charged depn on SLM basis assuming useful life to be 10 years.
On 31.3.20, the selling price of the machine was 720000 with an expected cost of disposal to be ₹ 80000.
Also, the cashflows that will be generated from using the machine would be as follows; Y.E. 31.3.21 = 175000
31.3.22 = 185000
31.3.23 = 165000
31.3.24 = 205000

Interest Rate = 11%.

Calculate impairment loss if any and depreciation for the year ended 31.3.21 assuming revised bal. useful life is only 4 years.

Solution :-

1. Carrying amount as on 31.3.20

a. Cost of PPE as on 1.4.17 :- 1000000
b. less: depn $\left(\frac{1000000}{10} \times 3\right)$:- 300000

3. Carrying amount as on 31.3.20 :- 700000

Calculation of Recoverable Amount

Higher of Net Selling Price or Value in use

Net Selling Price :-

a. Selling Price = 720000
b. less: cost of selling = 80000
c. Net Selling Price = 640000

Value in Use :-

Year	Cash flow	Discounting factor	Discounted Cash flow
31.3.21	175000	0.9009	157658
31.3.22	185000	0.8116	150146
31.3.23	165000	0.7312	120648
31.3.24	205000	0.6587	135033
			563485

Recoverable Amount = 640000

Impairment loss = Carrying Amount - Recoverable Amount

= 700000 - 640000
= 60000

Revised Carrying Amount as on 31.3.20 = ₹ 640000

Calculation of Depreciation for 31.3.21

$\frac{640000}{4}$ = 160000 /-

Carrying amount as on 31.3.21 = 640000 - 160000 = 480000/-

NOTE :- Incase Recoverable Amount > Carrying Amount, then AS-28 will not apply. Question that arises is whether the entity can revalue the PPE / IA / IP upwards if the recoverable amount higher. This can be done as per AS-10 (Revaluation accounting). If the entity decides to apply AS-10 revaluation accounting, then it should ensure that its revalues the entire class of PPE and not just a particular asset within the class and also no profit should be booked as a result of upward revaluation. Revaluation reserve will be credited for any increase in value of PPE.