

10. From the following details of an asset

Discussed in class

Homework

- (i) Find out impairment loss = 15.3
 (ii) Treatment of impairment loss
 (iii) Current year depreciation

Particulars of asset:

Cost of asset	₹ 56 lakhs
Useful life period	10 years
Salvage value	Nil
<u>Current carrying value</u>	₹ 27.30 lakhs
<u>Useful life remaining</u>	<u>3 years</u>
<u>Recoverable amount</u>	₹ 12 lakhs
<u>Upward revaluation done in last year</u>	<u>₹ 14 lakhs</u>

1. Impairment loss = Current Carrying Amount - Recoverable Amount
 = 27.3 - 12
 = 15.3 lakh

2. Treatment of impairment loss :-

Revaluation Reserve	Dr.	14
PL (impairment loss)	Dr.	1.3
To, PPE		15.3

3. Current Year Depreciation :-

Revised Carrying Amount = 27.3 - 15.3
 = 12
Remaining useful life = 3 years
Depreciation for current year = $\frac{12}{3} \times 1$
 = 4L

Depn :-

Depn (P&L)	Dr.	10
To, PPE		10
B/s		
PPE (100-10)		90

Depn (P&L)	Dr.	
To, provn for depn		
B/s		
PPE		100
- prov for D		(10)
WDV		90

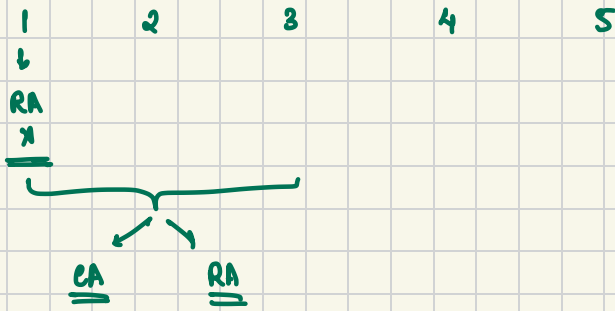
Explanation to Question 8

1.1. (P&L) Dr.
 To, prov for 1.1.

Prov for 1.1. = $\frac{100}{90} \times 10$
11.11

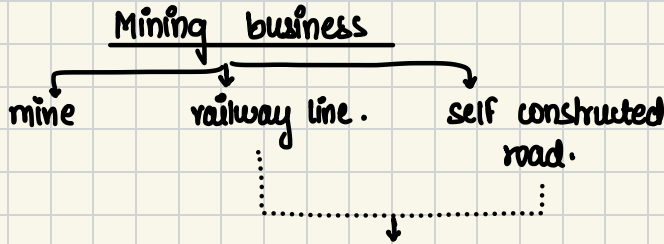
CASH GENERATING UNIT

Lab



Meaning :- A CGU is a small identifiable group of related assets that generate cashflows independently of the cash generated from other assets or other CGU.

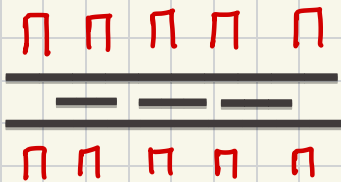
Example :-



Railway Line and Self constructed Road will not be able to generate any cash flows independently. We will not be able to ascertain its value in use or its Net Selling Price. Individually we cannot ascertain its Impairment loss.

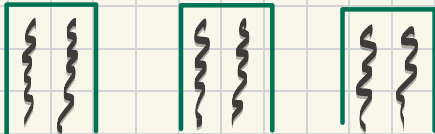
Now, we will create a smallest identifiable group of related assets that is able to generate cash flows. This will include mine + railway line + self constructed road. This group will be called a cash generating unit.

Eg:-



← Road constructed in a housing society
Recoverable amount is not ascertainable
↓

This road will be clubbed with other assets such that the group of assets is able to generate independent cashflows.



Impairment loss on a CGU

(similar to impairment loss on an individual asset)

1. Determine carrying amount of CGU. $\rightarrow A_1 + A_2 + A_3$

* If a liability is closely related to a CGU, then the carrying of liability is required to be considered
 $CA + CA + CA = CA \text{ of CGU}$

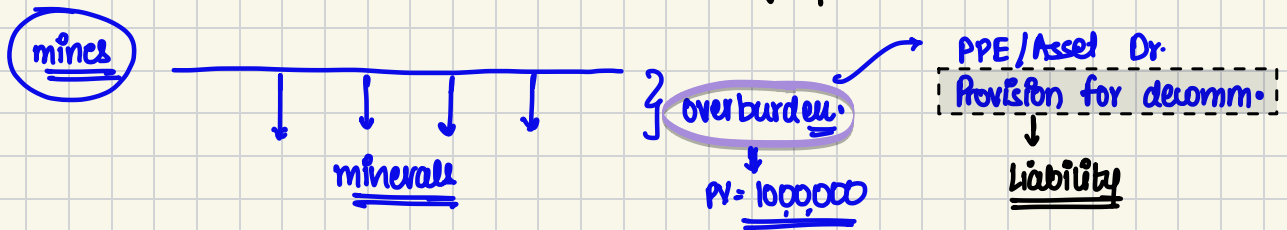
while calculating the CA of CGU.

2. Determine Recoverable amount of CGU.

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If $CA > RA$, then recognise impairment loss.

The impairment loss on a CGU, will be apportioned between the assets of the CGU in proportion to the carrying amounts of the assets on the date of impairment to determine the revised carrying amount.



Example :- A Cash Generating Unit consists of :-

A₁ : CA = 500,000

A₂ : CA = 700,000

A₃ : CA = 800,000

The net selling price of the CGU is 1800,000 and the value in use is 1550,000.

Calculate the impairment loss and the revised carrying amounts of the assets within the CGU.

Solution :-

$$\begin{aligned} \text{Carrying Amount of CGU} &= \text{CA of A}_1 = 500000 \\ &+ \text{CA of A}_2 = 700000 \\ &+ \text{CA of A}_3 = 800000 \\ &= \underline{2000000} \end{aligned}$$

Recoverable Amount of CGU : Higher of

1. Net Selling Price = 1800000

2. Value in use = 1550000

Recoverable amount = 1800000

Impairment loss = Carrying amount - Recoverable Amount

$$= 2000000 - 1800000$$

$$= 200000/-$$

Revised Carrying Amount :-

$$A_1 = 500,000 - \left(200,000 \times \frac{500,000}{2,000,000} \right) = 450,000$$

$$A_2 = 700,000 - \left(200,000 \times \frac{700,000}{2,000,000} \right) = 630,000$$

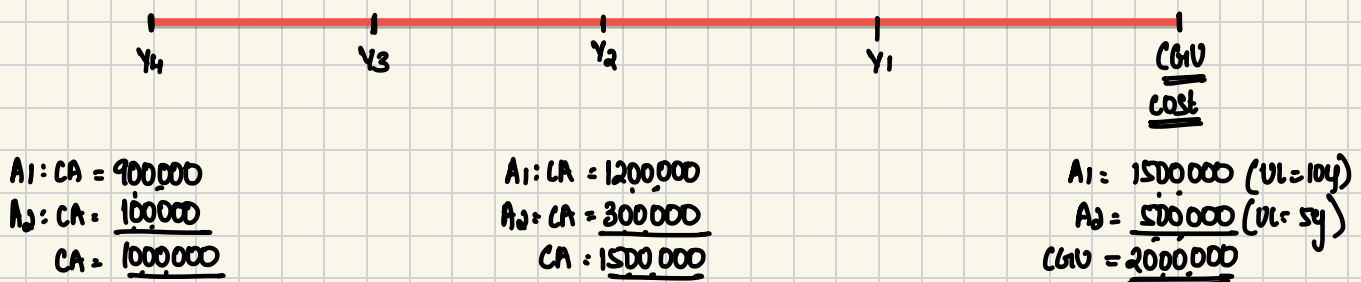
$$A_3 = 800,000 - \left(200,000 \times \frac{800,000}{2,000,000} \right) = 720,000$$

Reversal of Impairment loss of a CBV

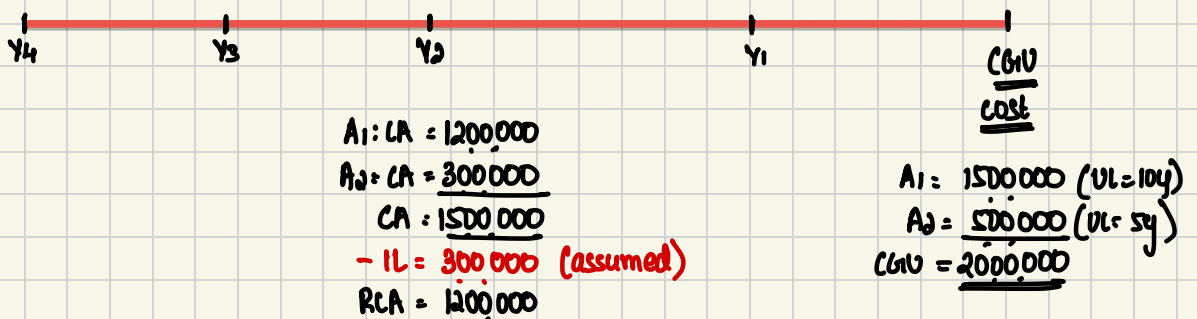
If indicators of impairment cease to exist, then, the impairment loss on a CBV can be reversed.

Impairment loss can be reversed to the extent the current carrying amount of CBV reaches the normal carrying amount of CBV. (i.e. the carrying amount had no impairment loss been charged in the first place).

Calculation of Normal Carrying Amount (i.e. without impairment loss)



Calculation of Current Carrying Amount (with Impairment loss)



$$A_1: CA = 900,000 - 240,000 = 660,000$$

$$A_2: CA = 240,000 - 160,000 = 80,000$$

$$CA = 800,000$$

$$A_1: RCA = 1,200,000 - (300,000 \times 12/15) = 960,000$$

$$A_2: RCA = 300,000 - (300,000 \times 3/15) = 240,000$$

* Indicators for impairment reversed.

Impairment loss can be reversed
only by ₹ 200000/-

Impairment of Goodwill

$$\begin{array}{r} B_1 \rightarrow \text{CGU} \\ 90 \\ \underline{7} \\ 97 \end{array}$$

$$\begin{array}{r} B_2 \rightarrow \text{CGU} \\ 90 \\ \underline{5} \\ 95 \end{array}$$

$$\begin{array}{r} B_3 \rightarrow \text{CGU} \\ 90 \\ \underline{3} \rightarrow \text{Goodhandwriting marks} = 15 \Rightarrow \text{Bottom level} \\ 93 \\ \underline{88} \rightarrow \text{Actual marks} \\ -5 \\ \swarrow \quad \searrow \\ \text{Goodhand.} \quad \text{Bal marks} \\ \text{writing} \quad \quad \quad \\ -3 \quad \quad \quad -2 \end{array}$$

$$\begin{array}{r} B_1 \\ 90 \\ \downarrow \end{array}$$

$$\begin{array}{r} B_2 \\ 90 \\ \downarrow \\ = 270 \\ + 100 \\ \hline 370 \\ - 100 \\ \hline 270 \end{array}$$

$$\begin{array}{r} B_3 \\ 90 \\ \downarrow \rightarrow \text{Bottom level} \end{array}$$

mon award $\rightarrow$ cannot be allocated = 100/100

$\rightarrow$ Top level
 $\downarrow$
"All CGU combined"

mon $\rightarrow$ "question paper"
 $\downarrow$
marks deduction