→ Top level pe goodwill allocate karo. (entity)

→ Impairment test top level pe.

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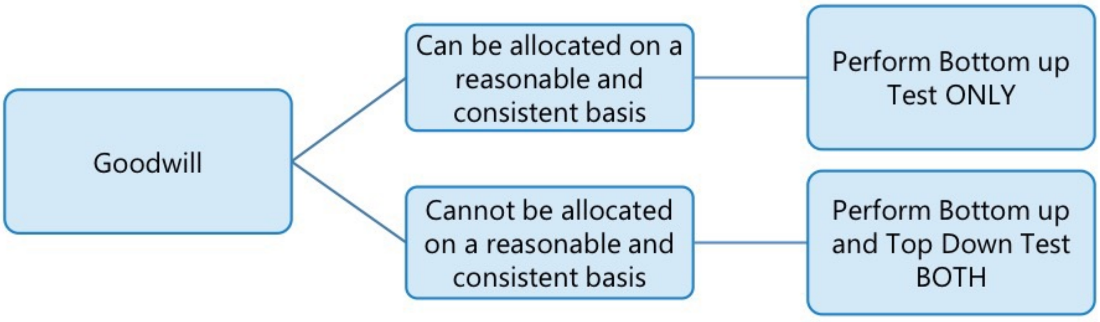
7.10 GOODWILL

Goodwill does not generate cash flows independently from other assets or groups of assets and, therefore, the recoverable amount of goodwill as an individual asset cannot be determined. As a consequence, if there is an indication that goodwill may be impaired, recoverable amount is determined for the cash-generating unit to which goodwill belongs. This amount is then compared to the carrying amount of this cash-generating unit and any impairment loss is recognized.

If goodwill can be allocated on a reasonable and consistent basis, an enterprise applies the 'bottom-up' test only. If it is not possible to allocate goodwill on a reasonable and consistent basis, an enterprise applies both the 'bottom-up' test and 'top-down' test.



Example:

At the end of 20X0, enterprise M acquired 100% of enterprise Z for ₹ 3,000 lakhs. Z has 3 cash-generating units A, B and C with net fair values of ₹ 1,200 lakhs, ₹ 800 lakhs and ₹ 400 lakhs respectively. M recognises goodwill of ₹ 600 lakhs (₹ 3,000 lakhs less ₹ 2,400 lakhs) that relates to Z.

At the end of 20X4, A makes significant losses. Its recoverable amount is estimated to be ₹ 1,350 lakhs. Carrying amounts are detailed below (₹ In Lakh).

2020

Z { 1 A = 1200
2 B = 800
3 C = 400

2400L   3000L

600 = Goodwill

2024

A : RA = 1350 ; CA = 1300 → significant losses

B   CA = 1200

C   CA = 800

Goodwill = 120L
(600-480)

Amortisation = $\frac{600}{5} \times 4 = 480$

CASE I :- Goodwill can be allocated (2024) → Bottom level → CGU

	A	B	C
1. Carrying Amount →	1300	1200	800
2. + goodwill (120) →	60	40	20
[Ratio of allocation : Purchase price / fair value on Date of Acq.(2020) (1200 : 800 : 400)]	$\left(120 \times \frac{1200}{2400}\right)$	$\left(120 \times \frac{800}{2400}\right)$	$\left(120 \times \frac{400}{2400}\right)$
Carrying amt incl. goodwill	1360	1240	820
Recoverable amount	1350	x	x
Impairment loss	10	x	x

↓

Revised Carrying Amount

1st **Goodwill**

CA = 60
− IL = 10
RCA = 50

\+

Remaining Assets

CA = 1300
− IL = 0
RCA = 1300

= 1350

1. Allocate goodwill to CGU. Ratio :- fair value of CGU on DOA
2. Calculate carrying amt incl. GW.
3. For the CGU where there is indication of impairment, calculate RA.
4. Calculate impairment loss.
5. Allocate the impairment loss first to goodwill and then to other assets of CGU after the carrying of GW is brought down to zero.

CASE II : Goodwill cannot be allocated

	A	B	C
1. Carrying Amount	1300	1200	800
2. Recoverable Amount	1350	x	x
3. Impairment loss	x	x	x

} Bottom level test

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4. Revised Carrying Amt	1300	1200	800	=	3300
5. Goodwill				=	120
6. Total carrying amount				=	3420
7. Recoverable Amount				=	3400
8. Impairment loss				=	20

Top level Test

Impairment loss will be written off against GW.

GW : RCA = 120 - 20 = 100

	A	B	C		
1. carrying Amount	1300	1200	800		
2. Recoverable Amount	1250 (assumed)	x	x		
3. Impairment loss	50	x	x		
4. Revised Carrying Amt	1250	1200	800	=	3250
5. Goodwill				=	120
6. Total Carrying Amt				=	3370
7. Recoverable Amount				=	3300 (assumed)
8. Impairment loss					70

IL charged to GW

GW : RCA = 120 - 70 = 50

→ First, calculate impairment loss for individual CGU.
→ calculate Revised CA of each CGU by allocating the impairment loss to the individual assets of CGU in proportion to carrying of each asset.
→ Now calculate the total CA of all CGU's combined.
→ Add goodwill to the total CA of all CGU's.

Bottom up Test

→ Now we will arrive at the total CA from entity's pov.
→ Compare this with the recoverable amount of the entire entity. → Top Down L29 Test.
→ Calculate impairment loss from entity pov if any.
→ Such impairment loss will first be written off from the value of goodwill and the from the value of other assets.

Reversal of Impairment Loss of Goodwill

Impairment loss on goodwill can be reversed only if :-

1. The indicators of impairment cease to exist (External Indicators)
2. Such further events occur that by default reverse the impact of impairment.

End of 20X4	A	B	C	Goodwill	Total
Net carrying amount	1300	1200	800	120	3420

→ Bottom (CGU)

Scenario A - Goodwill Can be Allocated on a Reasonable and Consistent Basis

On the date of acquisition of Z, the net fair values of A, B and C are considered a reasonable basis for a pro-rata allocation of the goodwill to A, B and C.

Allocation of goodwill at the end of 20X4:

	A	B	C	Goodwill
End of 20X0				
Net fair values	1200	800	400	2400
Pro-Rata	50%	33%	17%	100%
End of 20X4				
Net carrying amount	1300	1200	800	3300
Allocation of goodwill	60	40	20	120
(Using pro rate above)				
Net carrying amount (After goodwill)	1360	1240	820	3420

In accordance with the 'bottom-up' test in paragraph 78(a) of AS 28, M compares A's recoverable amount to its carrying amount after the allocation of the carrying amount of goodwill:

End of 20X4	A (Rs. In Lakh)
Carrying amount after allocation of goodwill	1360
Recoverable amount	1350
Impairment loss	10

M recognises an impairment loss of ₹ 10 lakhs for A. The impairment loss is fully allocated to the goodwill in accordance with paragraph 87 of AS 28.

Scenario B - Goodwill Cannot be Allocated on a Reasonable and Consistent Basis

There is no reasonable way to allocate the goodwill that arose on the acquisition of Z to A, B and C. At the end of 20X4, Z's recoverable amount is estimated to be ₹ 3,400 lakhs.

At the end of 20X4, M first applies the 'bottom-up' test in accordance with paragraph 78(a) of this Statement. It compares A's recoverable amount to its carrying amount excluding the goodwill.

End of 20X4	A (Rs. In Lakh)
Carrying amount	1300
Recoverable amount	1350
Impairment loss	0

Therefore, no impairment loss is recognised for A as a result of the 'bottom-up' test.

Since the goodwill could not be allocated on a reasonable and consistent basis to A, M also performs a 'top-down' test in accordance with paragraph 78(b) of AS 28. It compares the carrying amount of Z as a whole to its recoverable amount (Z as a whole is the smallest cash-generating unit that includes A and to which goodwill can be allocated on a reasonable and consistent basis).

Application of the 'top-down' test (Amount in ₹ lakhs)

End of 20X4	A	B	C	Goodwill	Total
Carrying amount	1300	1200	800	120	3420
Impairment loss arising from the 'bottom-up' test	0	-	-	-	0
Carrying amount after the 'bottom-up' test	1300	1200	800	120	3420
Recoverable amount	-	-	-	-	3400
Impairment loss arising from 'top-down' test	-	-	-	-	20

Therefore, M recognises an impairment loss of ₹ 20 lakhs that it allocates fully to goodwill in accordance with paragraph 87 of AS 28.