AS-28: IMPAIRMENT OF ASSETS - SUMMARY CHART

Assets : PPE, Intangible Assets, Investment Property

Indicator of Impairment

External

→ bans/restrict. by govt
→ new technology
→ market interest rate increases
→ market cap < book value of N.A.

Internal

→ Inadequate usage
→ Physical Damage
→ Current C.F estimate < previous C.F estimate

Any of the above exists

Calculate Impairment Loss

Carrying Amount > Recoverable Amount

Carrying Amount: Book value at the end of current FY

Also consider C.A. of a related liability
Eg: Prov. for overburden in case of a mine.

Recoverable Amount: Net selling Price / Value in Use

Net selling Price
→ Selling Price
- Cost of selling

1. Consider value of latest transaction of similar asset.
2. Consider market value in second hand market.

Value in Use
→ PV of future cash flows
+ PV of residual value

1. Consider projected cashflows of 5 years until more can be justified. (In exams follow what is given in question).
2. If cashflows are in foreign currency, then convert into ₹ using exchange rate on date of impairment.
3. If probability is given, then :- CF × prob
CF × prob
CF × prob
Total
4. If range is given ; $\frac{\text{Lowest Value} + \text{highest Value}}{2}$

Treatment of Impairment loss

→ Generally Dr. to P&L.

→ If asset has been previously revalued upwards, then impairment loss → 1st : write off against revaluat. res.
→ 2nd : balance ie if any, will be written off against P&L.

Reversal of Impairment Loss

→ Impairment loss will be reversed if Indicators of impairment cease to exist.

→ In such case, current carrying amount will be brought up to normal carrying amount.

Current C.A.	Normal C.A.	Recoverable Amt.
100	180	300

C.A. Can be Increased upto 180 as per AS-28.

C.A. can be increased to 300 as per AS-10 : Revaluation model.

Cash Generating Unit

→ smallest identifiable group of related assets that generate c.f. independently.

→ This is applicable when an Individual Assets recoverable amount is not ascertainable.

CGU

Carrying Amount > Recoverable Amount

Recoverable Amount: Net Selling Price / Value in Use, w.e. higher

→ A_1 : CA
A_2 : CA
A_3 : CA

* Also consider carrying amt. of a related liability.

Impairment loss

L30

Treatment of Impairment loss in case of a CGU

→ Normally charged to P&L.

→ Carrying amount of all assets within a CGU will be proportionately reduced.

→ If the CGU also has goodwill, the impairment loss will be 1st written off against goodwill and the balance IL if any will be w/off proportionately against C.A. of other assets.

Reversal of impairment loss of CGU

→ If indicators of goodwill cease to exist then IL can be reversed.

→ Maximum amount of reversal =

Current C.A $\xrightarrow{\text{increased to}}$ Normal C.A.

Proportionately added to the value of each asset of CGU. Proportion = C.A. of assets

→ While reversal goodwill will be reversed at last.

Impairment of Goodwill

Since goodwill doesnot have independent cashflows, we will allocate it with either the CGU's or the entity as a whole.

Goodwill is allocated to CGU.

→ Apply bottom up test.

Meaning :-
1. C.A. of each CGU.
2. + GW proportion = FV on DOA
3. Total C.A.
4. Recoverable Amount
5. Impairment loss
6. 1st w/off - against GW then other assets of CGU.

Goodwill is not allocated to CGU.

→ Apply Bottom up Test.
→ Apply Top Down Test.

Meaning :-
1. C.A. of each CGU.
2. R.A.
3. Impairment loss
4. R.C.A.
5. Total of RCA of all CGU
6. Add: GW
7. Total RCA from entity POV.
8. Compare with RA of entity
9. Impairment loss
10. IL → 1st w/off against GW
Balance against CGUs proportionately.

X

→ Same concept applicable for corporate assets.

Reversal of Impairment of Goodwill

→ Can be reversed only if ;

1. External indicators cease to exist.
2. Such external events happen subsequently that reverse the impact of the impairment.

DISCLOSURE :- Read from book