

AS-28: IMPAIRMENT OF ASSETS - SUMMARY CHART

Assets: PPE, Intangible Assets, Investment Property

Indicator of Impairment

External

- bans/reshift 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

Net selling Price

Value in Use

→ Selling Price - cost of selling

→ PV of future cash flows + PV of residual value

Also consider C.A. Book value at the end of current FY
Liability
Eg: Prov. for overburden in case of a mine.

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

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 :-
$$\frac{CF \times prob}{Total}$$
4. If range is given ; $\frac{Lowest\ Value + highest\ Value}{2}$

Treatment of Impairment loss

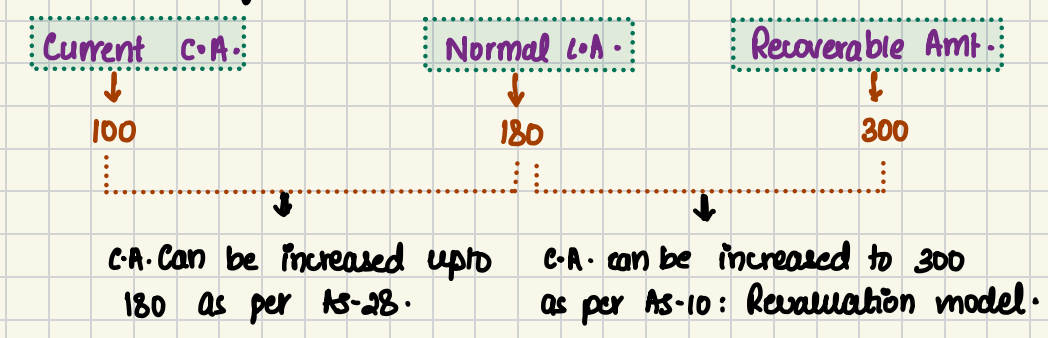
→ Generally Dr. to P&L.

→ If asset has been previously revalued upwards, then impairment loss → 1st : write off against revaluation res. → 2nd : balance 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.

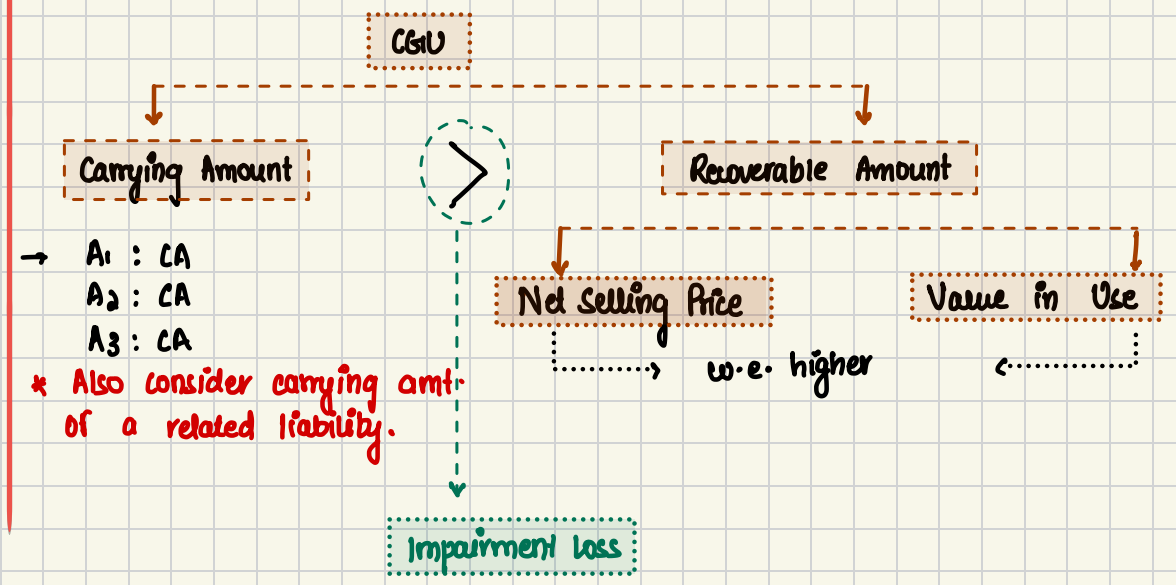
→ In such case, current carrying amount will be brought up to normal carrying amount.



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.



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 i.e. 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. $\text{Proportion} = \frac{\text{C.A. of assets}}{\text{CGU}}$
- While reversal goodwill will be reversed at last.

Impairment of Goodwill

Since goodwill does not have independent cashflows, we will allocate it with either the CGU's or the entity as a whole.

Goodwill is allocated to CGU.

Goodwill is not allocated to CGU.

- Apply bottom up test.

Meaning :-

1. C.A. of each CGU.
2. + $\text{Gw proportion} = \text{FV on DDA}$
3. Total C.A.
4. Recoverable Amount
5. Impairment loss
6. 1st w/off - against Gw then other assets of 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.

X

8. Compare with RA of entity
9. Impairment loss
10. IL → 1st w/off against Gw Balance against CGUs proportionately.

- 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