

Ind-AS 36 - Impairment of Assets

M/s Pranjal Joshi & Co
Chartered Accountants

What is impairment Loss -

- Dictionary meaning of the word impairment is *“the state of being diminished, weakened, or damaged”*
- An asset is considered as impaired when its carrying amount exceeds its recoverable amount.
- Thus, Impairment loss of an asset or CGU =
- Carrying amount of asset (or CGU) – Its recoverable amount.

When to assess the impairment loss -

- A) An entity shall assess at the end of each reporting period whether there is any indication that an asset (or CGU) has been impaired.

External Indications	Internal Indications
<ul style="list-style-type: none">•An asset's market value has declined significantly•Significant changes with an adverse effect on the entity have taken place or will take place.•Market interest rates or other market rates of return on investments have increased•carrying amount of the net assets of the entity is more than its market capitalisation.	<ul style="list-style-type: none">•Obsolescence or physical damage of an asset.•Restructuring plans•Idle Assets•Economic performance of the asset is worst than expected

- B) However in case of Goodwill and Intangible asset having indefinite life, irrespective of existence of indicators, impairment testing need to be done annually.

Impairment Loss = Carrying amount of asset *Less* its recoverable amount

- Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.
- The recoverable amount of an asset is the **higher** of —
 - **Its fair value less costs to sell** (*Current market price adjusted to directly attributable incremental costs*)
 - and
 - **Value in use** (*Discounting Estimated future cash flows*)

Determine the impairment loss -

- A Ltd provides following information about its 3 assets –
 - Machinery – specialized machinery used for the Army Project. Project is complete and machinery can not be used as it is for other projects.
 - Alavara Park Building – area has been affected due to civil disturbances and hence market prices have reduced in the area.
 - Laptops purchased for Project A. Project has been discontinued.

Asset	Current w.d.v.	Fair value	Cost to sell	Value in Use
Machinery	10,00,000	5,00,000	50,000	6,00,000
Building	40,00,000	33,00,000	1,00,0000	30,00,000
Laptops	200,000	180,000	3,000	205,000

- Compute the amount of impairment loss.

Accounting for impairment loss -

- An impairment loss shall be recognised –
- In case of cost model = In Profit and loss A/c.
- In case of revaluation model = Reduction in revaluation reserve. Loss beyond revaluation surplus will go to Profit and Loss A/c
- Question – A Ltd owns Building (Original cost) Rs. 120 Lacs having w.d.v. as on 31.03.14 of Rs. 85 Lacs (Revaluation surplus of Rs. 5 Lacs). As per management estimate, its recoverable amount is Rs. 72 Lacs with remaining useful life of 10 years.
- Please compute the amount of Impairment Loss for 31.03.14, and

Cash Generating Unit (CGU) -

- A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
- Example of CGU - A mining entity owns a private railway to support its mining activities. The private railway could be sold only for scrap value and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the mine.
- Thus, a private railway can not be recognised as CGU but entire mine shall be treated as CGU.

Question on CGU -

- A KPO company has taken a contract to support the 5 locations of the MNC wherein KPO Co. is required to have office at all such 5 locations. KPO co. is bound by a contract to operate at all locations. Assets devoted to each location, employees and the cash flows from each location can be identified separately. KPO co. is entitled to revenue based on actual work done at each location plus lump sum facilitation charges for taking up contract for all 5 locations. One of the location operates at a significant loss.
- Advise KPO Co whether it can treat such location operating at loss for impairment or not ?

Allocation of impairment loss of CGU

-

- The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:
- First, to the asset having indication of impairment,
- Then, to reduce the carrying amount of any goodwill allocated to CGU, and balance
- To the other assets of the CGU pro rata (on carrying value basis).
- While doing so, the carrying amount of any one asset in CGU should not be reduced below the HIGHEST of
 - its fair value less costs to sell
 - its value in use, and
 - zero

Example -

- A CGU comprises of following assets –

Details	Amount (Rs)
Goodwill	14,000
Asset A	50,000
Asset B	40,000
Asset C	30,000
Asset D	10,000
Total assets of cash-generating unit	144,000

This cash-generating unit suffered an impairment loss of Rs. 40,000.

If it is not practicable to estimate the recoverable amount of each individual asset, how will the impairment loss be allocated?

Reversal of impairment loss -

- It is likely that the recoverable amount of an Individual asset may increase later requiring reversal of impairment loss.
- In such case, it can be reversed.
- The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

- Thank you !!