

IND AS 36

# Impairment of Assets

## II. ASSETS

### Non-current assets

- (1) (a) Fixed assets
  - (i) Tangible assets
  - (ii) Intangible assets
    - Mineral Rights-Ind AS 106
  - (iii) Capital work-in-progress
    - (Assets arising from Construction Contracts)-IND AS 11
  - (iv) Intangible assets under development
- (b) Non-current investments
- (c) Deferred tax assets (net)-Ind AS 12
- (d) Long-term loans and advances
- (e) Other non-current assets
  - Non Current Assets held for Sale –Ind AS 105

### (2) Current assets

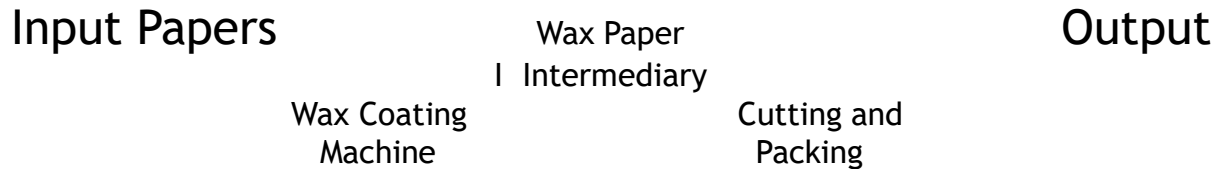
- (a) Current investments
- (b) Inventories(Ind AS 2)
- (c) Trade receivables
- (d) Cash and cash equivalents
- (e) Short-term loans and advances
- (f) Other current assets
  - (Assets arising from Employee Benefits)-Ind AS 19
  - (Biological assets)-Ind AS 41
  - Insurance Contracts-Ind AS 104
  - Financial Assets-Ind AS 109

# **EXCLUSION OF CERTAIN ASSETS FROM THE SCOPE OF STANDARD**

1. Inventories (Ind As 2)
2. Assets arising from construction contracts. (Ins As 11)
3. Deferred Tax assets. (Ins As 12)
4. Assets arising from Employee Benefits. (Ins As 19)
5. Biological assets (Ind As 41)
6. Non-Current assets held for sale. (Ind As 105)
7. Mineral Rights. (Ind As 106)
8. Insurance contracts. (Ind As 104)
9. Financial Assets. (Ind As 109)

**REASON FOR EXCLUSION: LOSSES ALREADY COVERED IN SPECIFIC IND AS**

## ➤ Real Business Situations



### Recoverable Amount

Higher of... Net selling Price - Value in Use

Cash flows cannot be identified for Asset 1 and Asset 2 individually.

Recognition of impairment loss on individual asset is not possible when they generate cash flows on combined basis.

In such case , recognition of impairment loss has to be done on combination of assets (group of assets).

Such group of assets is normally termed as CGU.  
CGU - Cash Generating unit

CGU is a smallest identifiable group of assets generating cash flows which are largely independent of others assets or group of assets.

# IND AS- 36

## Impairment of Assets<sub>(Loss in Value of an asset)</sub>

### Recurring Events

#### Dep.

- Effluxion of time
- Wear and Tear due to use
- Obsolescence due to technological Changes

### Isolated Non-Recurring Events

Closing down of a particular facility  
Physical Damage  
Fall in utility

Measurement(Carrying  
Value-Recoverable Amount)

### Recoverable Amount

- Higher of Value in use
- Net selling price=Estimated fair value of assets on disposal reduced by estimated cost of disposal.

### Carrying value of asset

Book value of  
asset

# MEASUREMENT OF VALUE IN USE

I. If value in use of an asset cannot be measured reliably, then the recoverable amount shall be taken at net selling price.

**Value in use:-** Primary approach

◉ Income approach -DCF approach

**Example-** Reception table for Receptionist capitalized

II. If fair value of asset exceeds the carrying (amount) value of asset, value in use need not be identified.

Impairment loss= Carrying Value-Recoverable Amount

Higher of

VIU

NSP

In such case, there is no impairment loss.

IF VIU>Carrying value of asset , NSP need not be identified.

### Net Selling Price

Estimated Fair Value minus-

Estimated cost of Disposal

Ind As 113

Price at which an asset can be sold or

Estimated cost of disposal includes:

Continue NSP→



A liability can be transferred between market participants in an orderly transaction on a particular measurement date.

Market Participants means willing and knowledgeable buyers & sellers.

Example:- Mobile Phone-

Uses it can be put to

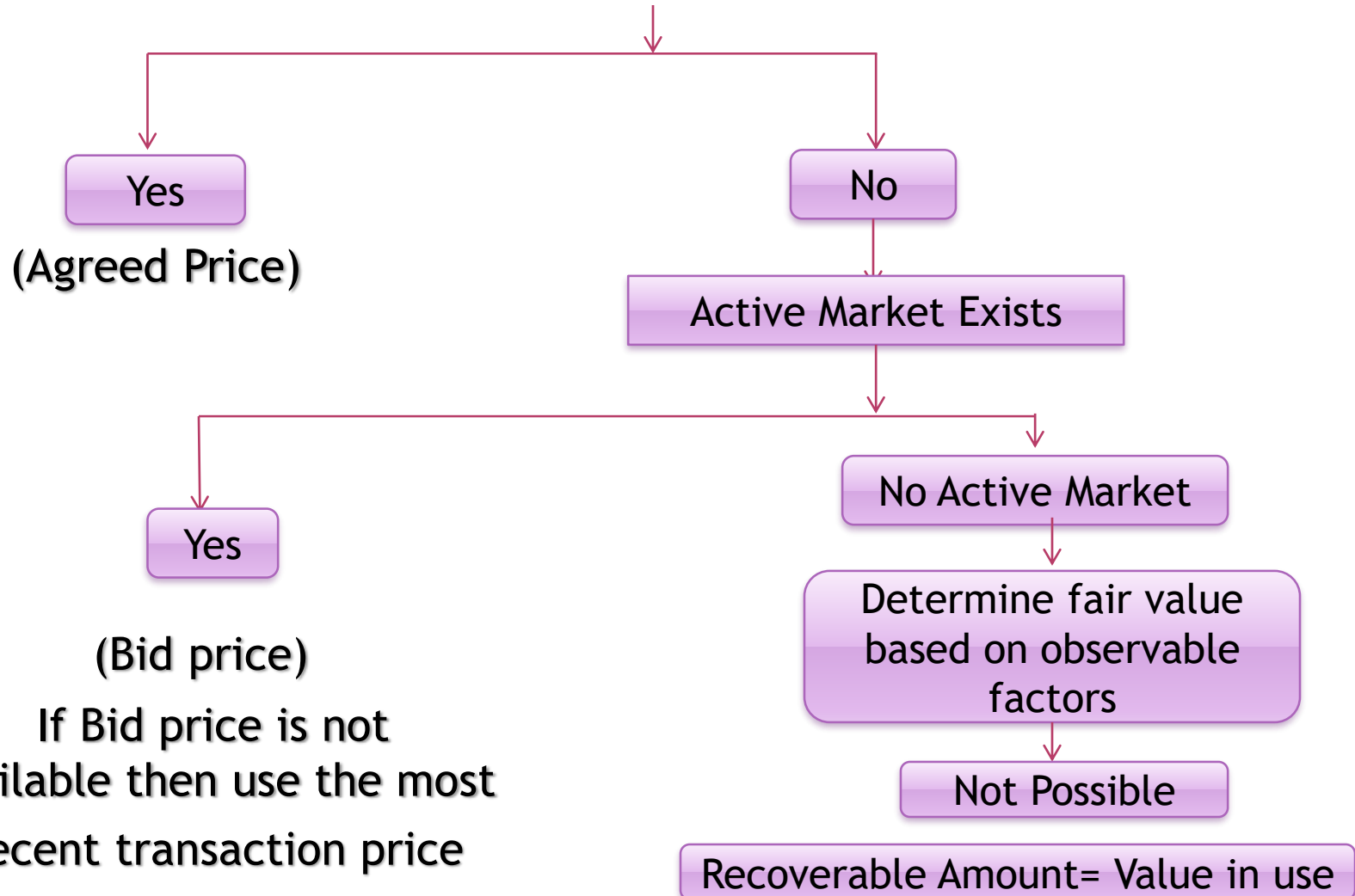
Orderly Transaction: Arm's Length Transaction Price.

- Transaction Cost (Commission, Brokerage etc.)
- Fee for transfer of asset (E.g in case of land)
- Cost to render the asset marketable (say adv. on OLX or classified ads)

Measurement date is the date when impairment is assessed.

## DETERMINATION OF FAIR VALUE

Binding sale agreement exists



Adjustments to recent transaction price.

Observable Factors

Term used in- Ind As 113

### **Value in use (VIU)**

Present value of cash flows arising from continuing use of assets.

2 Determinants

- ◉ Estimated Cash flows (ECF)
- ◉ Appropriate Discount Rate

### **ECF**

- Cash Inflows arising from continuing use of asset.
- Cash Outflows necessary to derive benefit from asset (Maintenance , additional costs like oil, diesel)
- Net cash flow from disposal of asset at the end of its useful life.

## **APPROPRIATE DISCOUNT RATE**

Rate which represents current market assessment of time value of money+ Any risk associated with the asset.

In case appropriate Discount rate can't be identified, alternatively an enterprise can use either of the following:

**WACC** or Incremental Borrowing Rate

## **FACTOR TO BE CONSIDERED IN DETERMINING CASH FLOWS**

In determining Cash flows, an enterprise can use the Budget and forecast prepared by management for a period not exceeding 5 years

If the useful life exceeds 5 years then the future cash flows beyond 5 years should be estimated by extrapolation based on a steady growth rate or a declining growth rate.

Say Growth rate=  $G$


- ⊙  $G$  can be Zero or Negative
- ⊙  $G$  cannot be incremental growth rate.

### EXCLUSIONS FROM CASH FLOWS IN ESTIMATING VALUE IN USE

- Liabilities already recognised
  - Future reconstruction expense not committed for
  - Benefits arising from future reconstruction expense
  - Financing Cash Flows
  - Taxes
- Discount Rate applicable should also be Pre - Tax rate

## IF ASSET GENERATES CASH FLOWS IN FOREIGN CURRENCY

<u>Year</u>	<u>CF</u>	<u>Discount Rate</u>
1-7	XXX (in \$)	Time value of foreign currency (in \$)



Present value of cash Value  
= in \$ multiplied by the  
today's spot Rate (Rs/\$)  
VIU in Rs. (Functional Currency)

I will recognize impairment only if the recoverable amount is less than the carrying value of asset.

# RECOGNITION OF IMPAIRMENT LOSSES

Recoverable amount exceeds the carrying value	No impairment loss
Recoverable amount falls short of the carrying cost,	we have to recognize impairment

P&L A/c..... Dr

To Asset..... Cr

In case the asset was revalued upwards earlier/previously then revaluation reserve must be existing

Revaluation Reserve A/c..... Dr

To Asset..... Cr

## Reversal of impairment loss

check only if the asset was impaired earlier.

If recoverable amount exceeds the carrying value of assets.

Reversal can be to the extent of lower of

- I. Recoverable Amount- Carrying Value
- II. Carrying Value of the asset if such impairment was not recognised earlier- carrying value of asset

### Situation

Year 1) Carrying Value - 100

Useful life- 5 Years

Dep.p.a=  $100/5 = 20$

If Residual value is zero

If it was impaired by Rs. 20

(Recognised in Y1)



Then the revised carrying value = 80

Useful life= 5 years

Dep = 16

In Y3 we are assessing the situation.

Carrying value of asset =  $80 - (16 \times 2) = 48$

Reversal of impairment loss =

Recoverable amount- carrying value= 20

Then no recognition of impairment as Rs. 20 was already recognised in First Year.

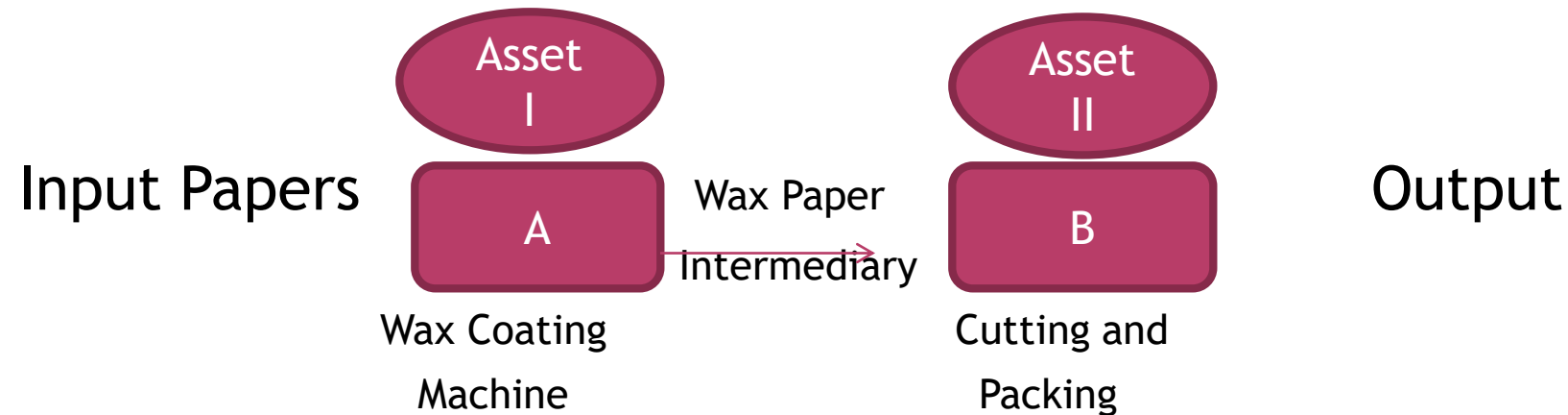
Carrying value of the asset if impairment was not recognised earlier=  $100 - (2 \times 20) = 60$

Carrying value after impairment= 48

Reverse= 12

Revised CV =  $48 + 12 = 60$

## ➤ Real Business Situations



### Recoverable Amount

Higher of... Net selling Price - Value in Use

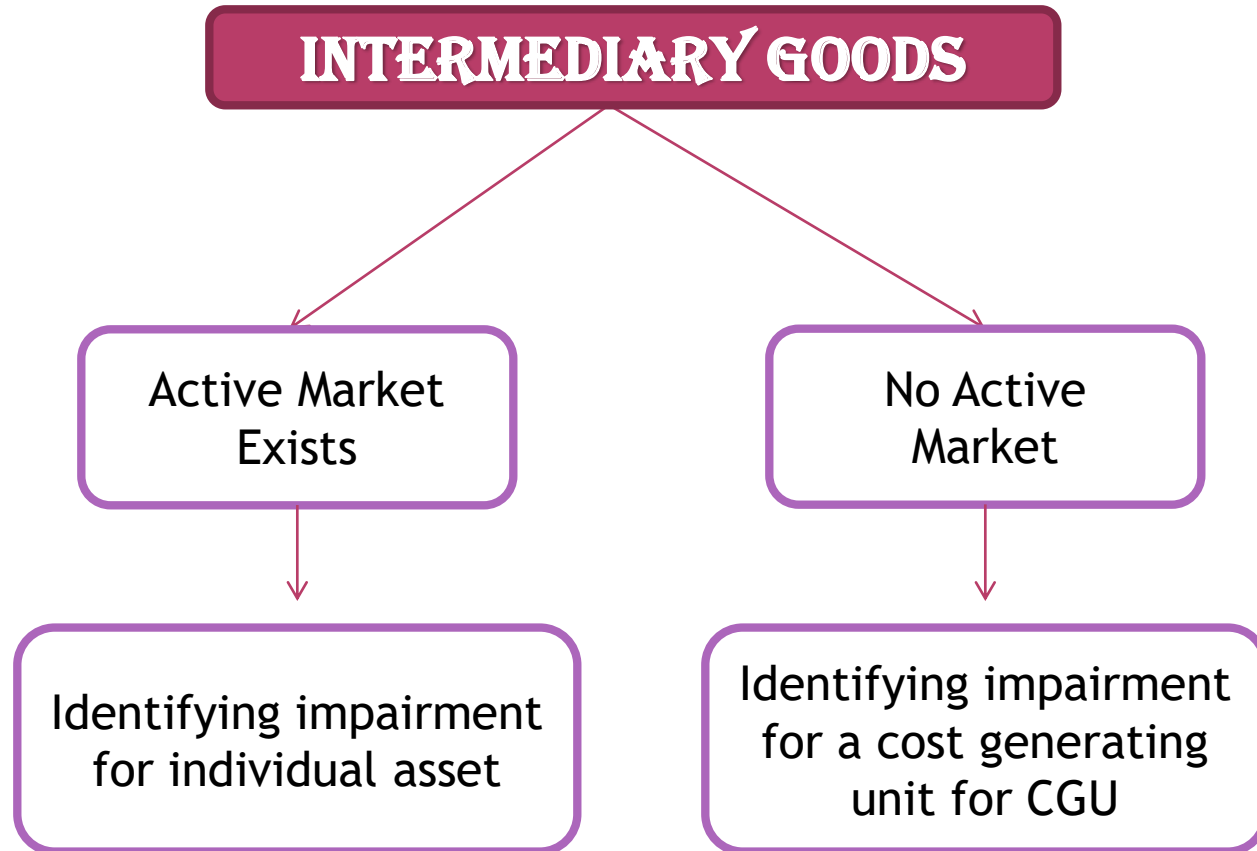
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# CGU

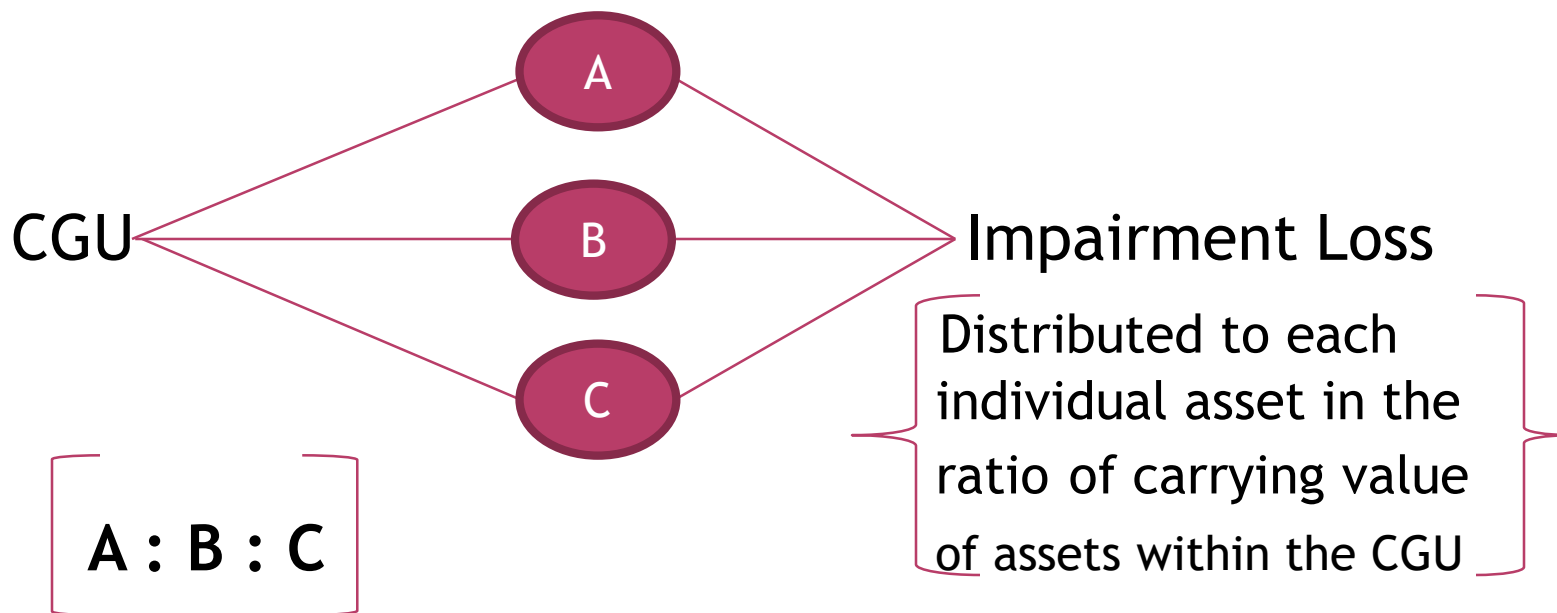
Cash Generating unit Assets should be allocated on a reasonable and consistent basis to a CGU.

However an asset can be reclassified to another CGU if it is justified . For instance if there is a Change in utilization of asset. An AC was initially being used in server room. With the passage of time, its cooling was not so effective . Hence the AC was shifted to administration block due to reduced utility of AC.

Impairment of CGU=

Sum of all the carrying amounts of assets within the CGU Less: Recoverable cost of CGU.

## ***IMPAIRMENT LOSS OF CGU***

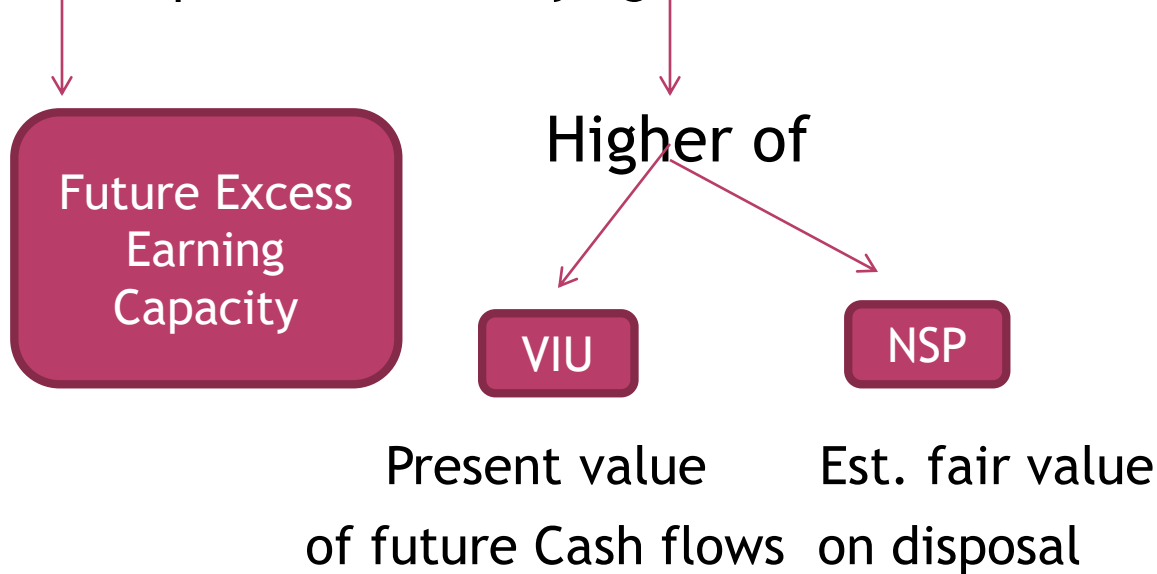


Reverse if impairment loss to a CGU, even such reversal should be allocated to each asset in ratio of their carrying values.

Reversal is subject to maintaining carrying value of assets if such impairment loss was not recognised earlier.

# Goodwill

Impairment = Carrying Value - Recoverable Amount



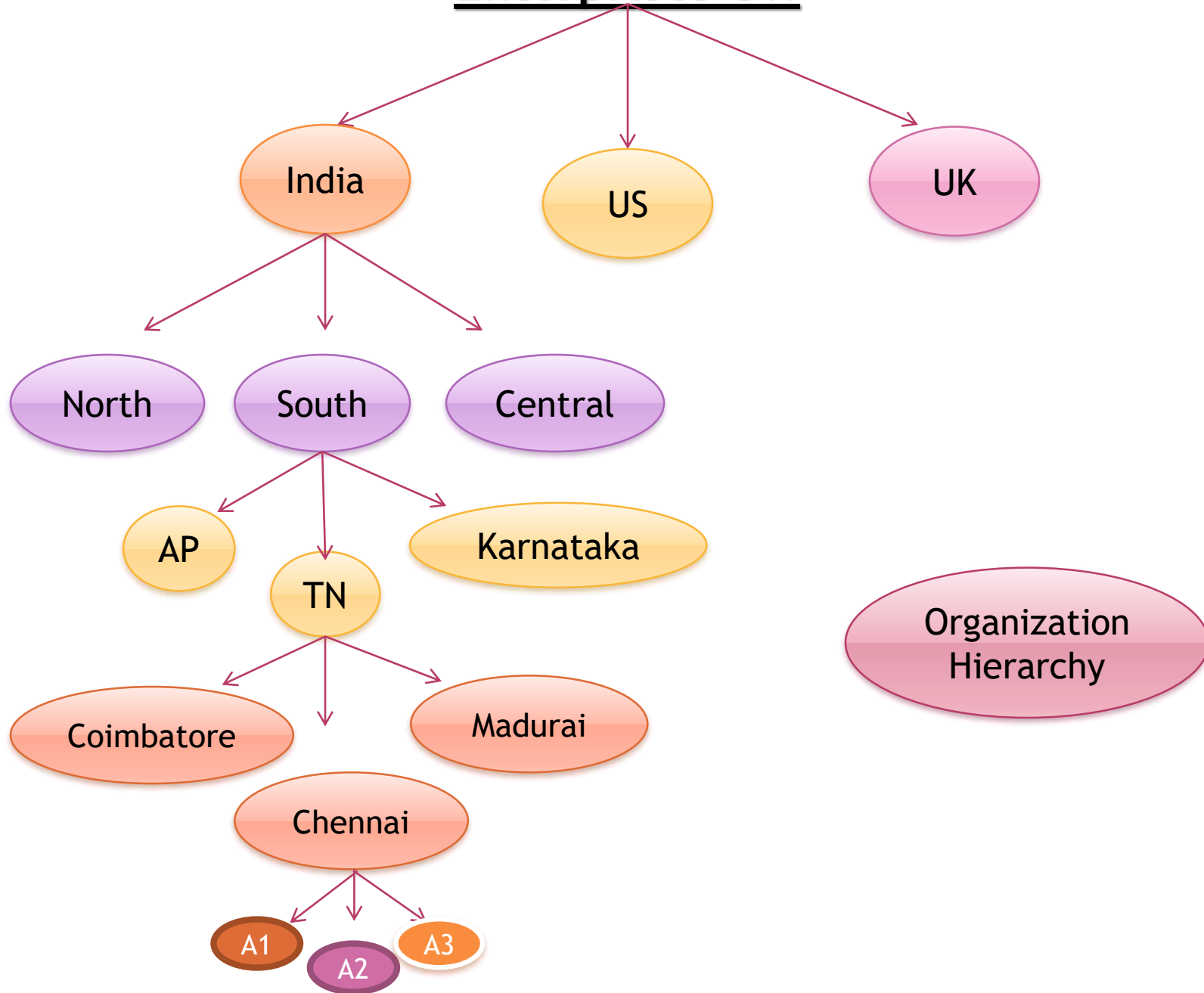
Goodwill should be allocated on a reasonable and consistent basis to individual assets & group of assets (CGU).

Allocated on Non Arbitrary Basis(Not at Management's discretion)

## Allocation of Goodwill

- ❖ Bottom up Approach (As 38)
- ❖ Top Down Approach (Ind As 36)

# Enterprises GW



## **Impairment of Goodwill**

Goodwill is not checked for impairment individually but along with other assets or group of assets.

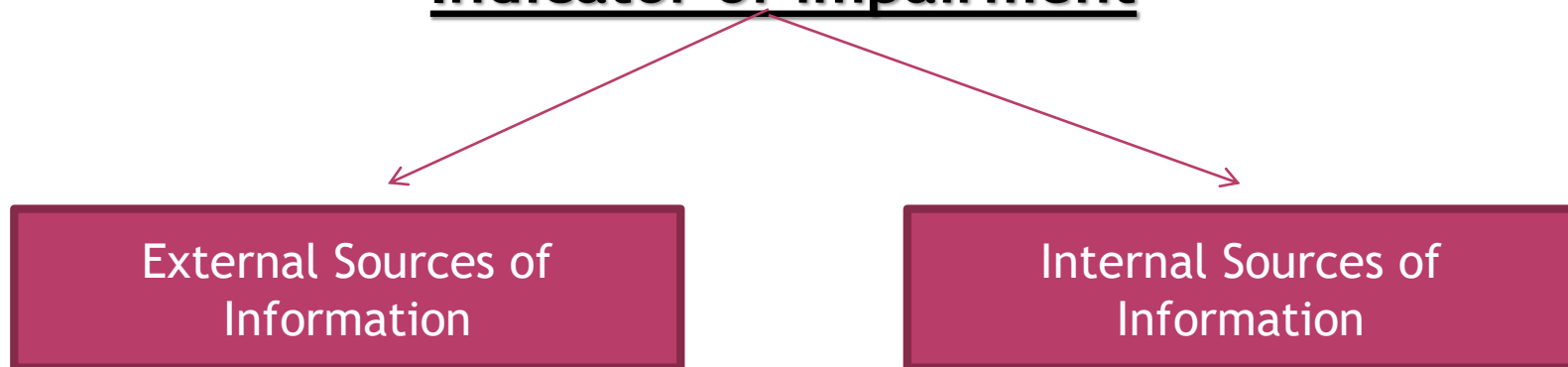
Impairment should be first provided to goodwill allocated and the balance to the assets and group of assets.

## **Reversal of impairment on goodwill**

Not allowed as per Ind As (36)

Always check for impairment only if indicator of impairment exists.

### **Indicator of impairment**



To be Continue NP



External Sources of Information	Internal Sources of Information
I. Increase in Discount rate	I. Change in facility
II. Adverse effects on market/demography /legal environment.	II. Visible decline in productivity
III. Decrease in utility of assets beyond normally decline.	III. Adverse change in use of assets

Not Exhaustive but Inclusive list.

### **Exceptions to Indicator Impairment**

- |                                                                              |                |
|------------------------------------------------------------------------------|----------------|
| 1) Intangible Assets with indefinite life.                                   | } Ind As<br>38 |
| 2) Intangible assets not put to use.<br>(Research & Development Expenditure) |                |
| 3) Goodwill on business combination (Ind As 36)                              |                |

Tested for impairment at least once in each financial year (Need not be done on balance sheet date)

Test for impairment in the financial year of acquisition.

Interesting Situation : Impairment =

Carrying Value - Recoverable Amount    If -ve

Impairment > Carrying Value  
of Assets

If an asset cannot be used but should be disposed under an obligation (Legal or Contractual), in such a case VIU should not be considered & NSP if fair value on disposal is zero.

NSP = -Cost of Disposal

Create a provision for estimated cost of disposal.

Impairment (P&L)..... Dr

To Asset..... Cr

To Provision for cost of disposal..... Cr