


Accounting Standard – 28 IMPAIRMENT OF ASSETS

Prajakta Sangoram

Objective

To ensure that its assets are not carried at more than their recoverable amount

If carrying amount (book value) > the amount to be recovered through use or sale of the asset



AS 28 requires the enterprise to recognize an impairment loss

Applicability

Mandatory for all the three levels of enterprises

Relaxations to Level II and Level III - SMEs, from the measurement principles contained in the accounting standard

Scope

Applicable in accounting for the impairment of all assets, EXCEPT

AS 2 - Valuation of Inventories

AS 7 - Construction Contracts

AS 13 - Accounting for Investments

AS 22 - Accounting for Taxes on Income

Indicators - Internal

Evidence of obsolescence
or physical damage

Discontinuance, disposal,
restructuring plans

Asset performance
declining or expected to
decline

Indicators - External



Significant decline in market value

Technological, market, economic or legal environment

Market interest rates or other market rates of return on investments

Carrying amount of the net assets > its market capitalization

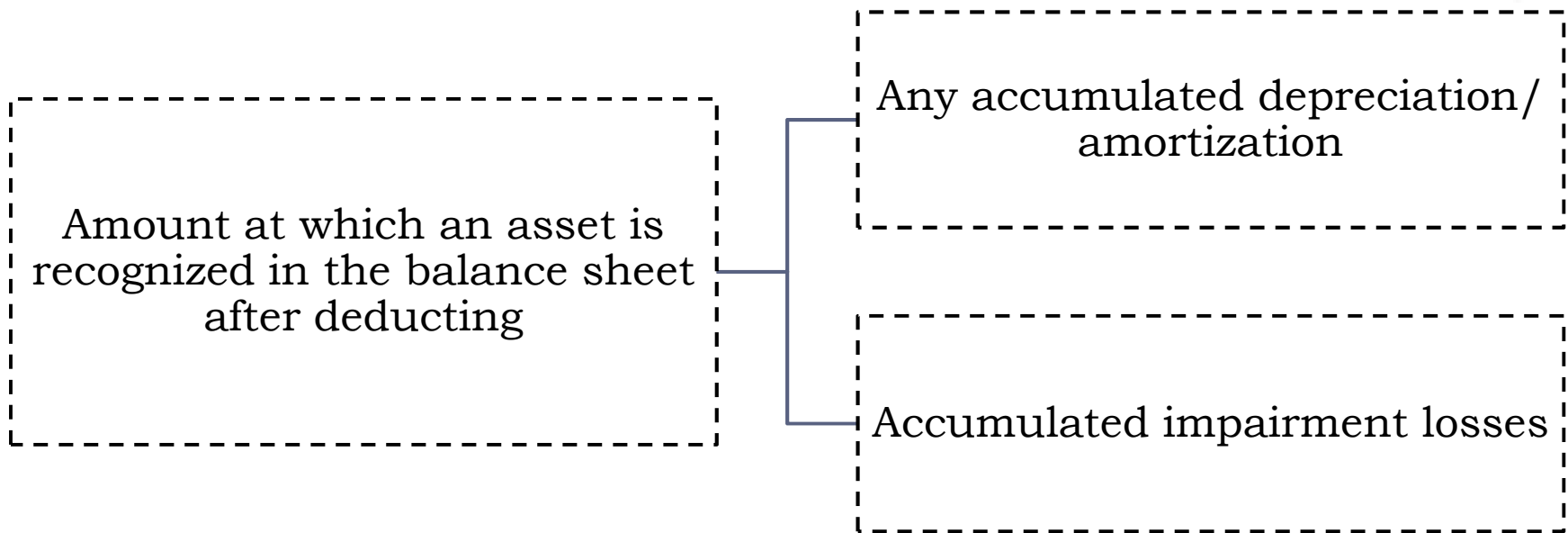
Impairment of Assets

Assess at each balance sheet date if any indicators exist

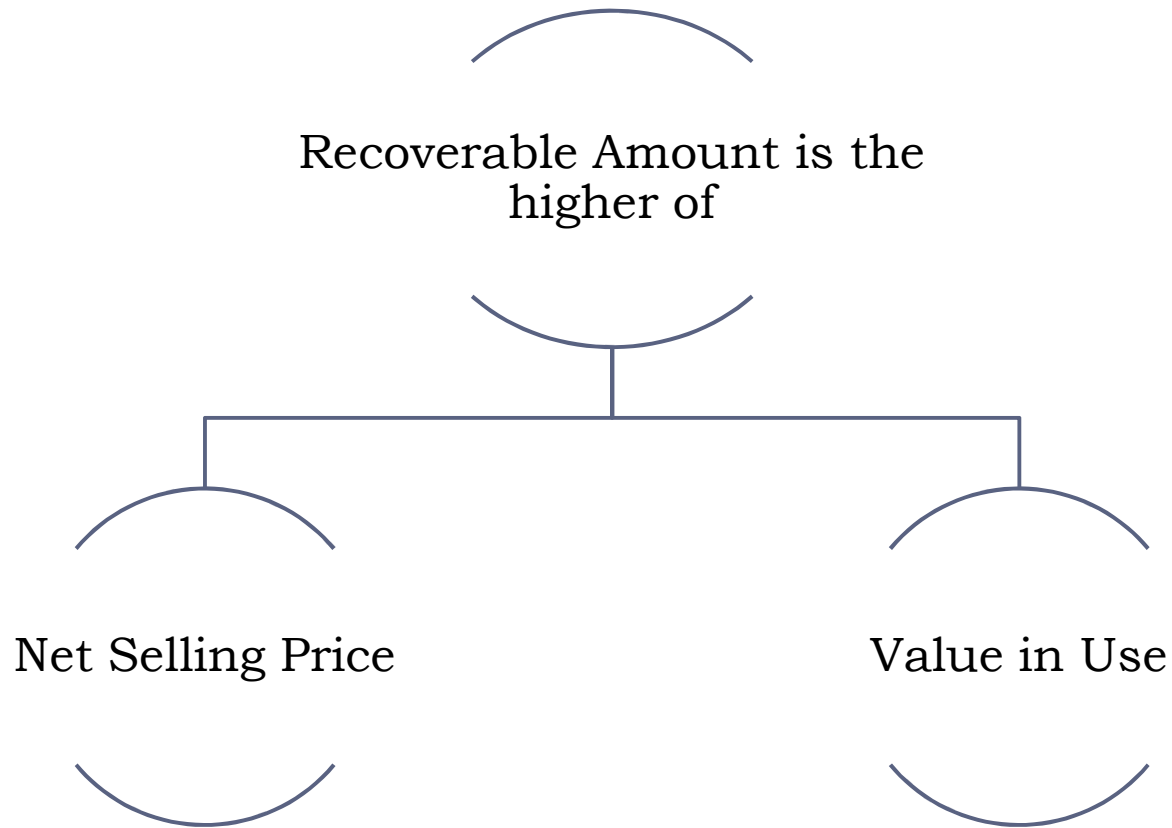
Estimate the Recoverable Amount of the asset

Impairment Loss =
Carrying Amount >
Recoverable Amount

Carrying Amount



Recoverable Value



Recoverable Value

Net Selling Price

Amount obtainable from the sale of asset in an arm's length transaction –Cost of disposal

Recoverable Value

Value in Use

Present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life

Recoverable Value

Value in Use

SMEs – Present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life, **or a reasonable estimate thereof**

Measurement of Impairment Loss

How do you calculate Impairment Loss?

Carrying Amount

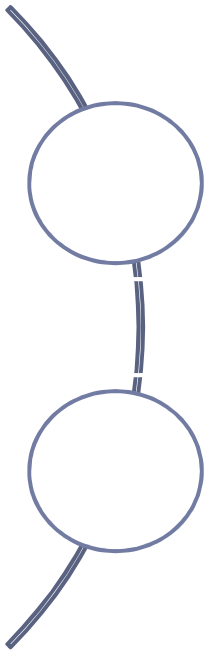
Less

Recoverable Amount

Recognition of Impairment Loss



How do you recognize Impairment Loss?



As an expense in the statement of profit and loss

If asset was revalued previously the impairment loss of a revalued asset should be treated as a revaluation decrease first

Cash Generating Unit

Estimate the recoverable amount for –

- Individual assets and if not possible
- The asset's cash generating unit

The smallest identifiable group of assets that generates the cash flows that are largely independent from other assets or group of assets

Cash Generating Unit

Assets maybe bought or sold separately but often used in groups

Revenue and cash flow arising from use of various assets and cannot be attributed to individual assets

Cash Generating Unit

Factors to be considered

- How management monitors the enterprise's operations
 - How management makes decisions about continuing or disposing of enterprise's assets and operations
 - Segment reporting
-

Cash Generating Unit – Example 1

- ▶ A mining enterprise owns a private railway to support its mining activities.
 - ▶ The private railway could be sold only for scrap value and the private railway does not generate cash inflows from continuing use that are largely independent of the cash inflows from the other assets of the mine.
-

Cash Generating Unit – Example 1

- ▶ It is not possible to estimate the recoverable amount of the private railway because the value in use of the private railway cannot be determined and it is probably different from scrap value.
 - ▶ Therefore, the enterprise estimates the recoverable amount of the cash generating unit to which the private railway belongs, that is, the mine as a whole.
-

Cash Generating Unit – Example 2

- ▶ A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes.
 - ▶ Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.
-

Cash Generating Unit – Example 2

- ▶ Because the enterprise does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together.
 - ▶ The cash-generating unit for each route is the bus company as a whole.
-

Impairment Loss of CGU



Tests for determining impairment loss for CGU

Goodwill can be allocated

Bottom Up Test

Goodwill cannot be allocated

Top Down Test

Bottom-Up Test

If goodwill or corporate asset can be allocated on a reasonable and consistent basis to the CGU

Compare recoverable amount of cash generating unit (CGU) to its Carrying Amount (including goodwill or corporate asset) and recognize impairment loss

First adjust loss against Goodwill of CGU

Bottom-Up Test

Then allocate among other assets (including corporate assets) of CGU on ratio of carrying value of the assets

Top-Down Test

If goodwill or corporate asset cannot be allocated on a reasonable and consistent basis to the CGU

Identify smallest CGU that includes the CGU under review and to which the carrying amount of goodwill can be allocated on a reasonable & consistent basis

Compare recoverable amount of the larger CGU to its carrying amount (including carrying amount of allocated goodwill) & recognize any impairment loss

Cash Generating Unit – Example 3

- ▶ A machine has suffered physical damage but is still working, although not as well as it used to. The net selling price of the machine is less than its carrying amount. The machine does not generate independent cash inflows from continuing use.
 - ▶ The smallest identifiable group of assets that includes the machine and generates cash inflows from continuing use that are largely independent of the cash inflows from other assets is the production line to which the machine belongs. The recoverable amount of the production line shows that the production line taken as a whole is not impaired
-

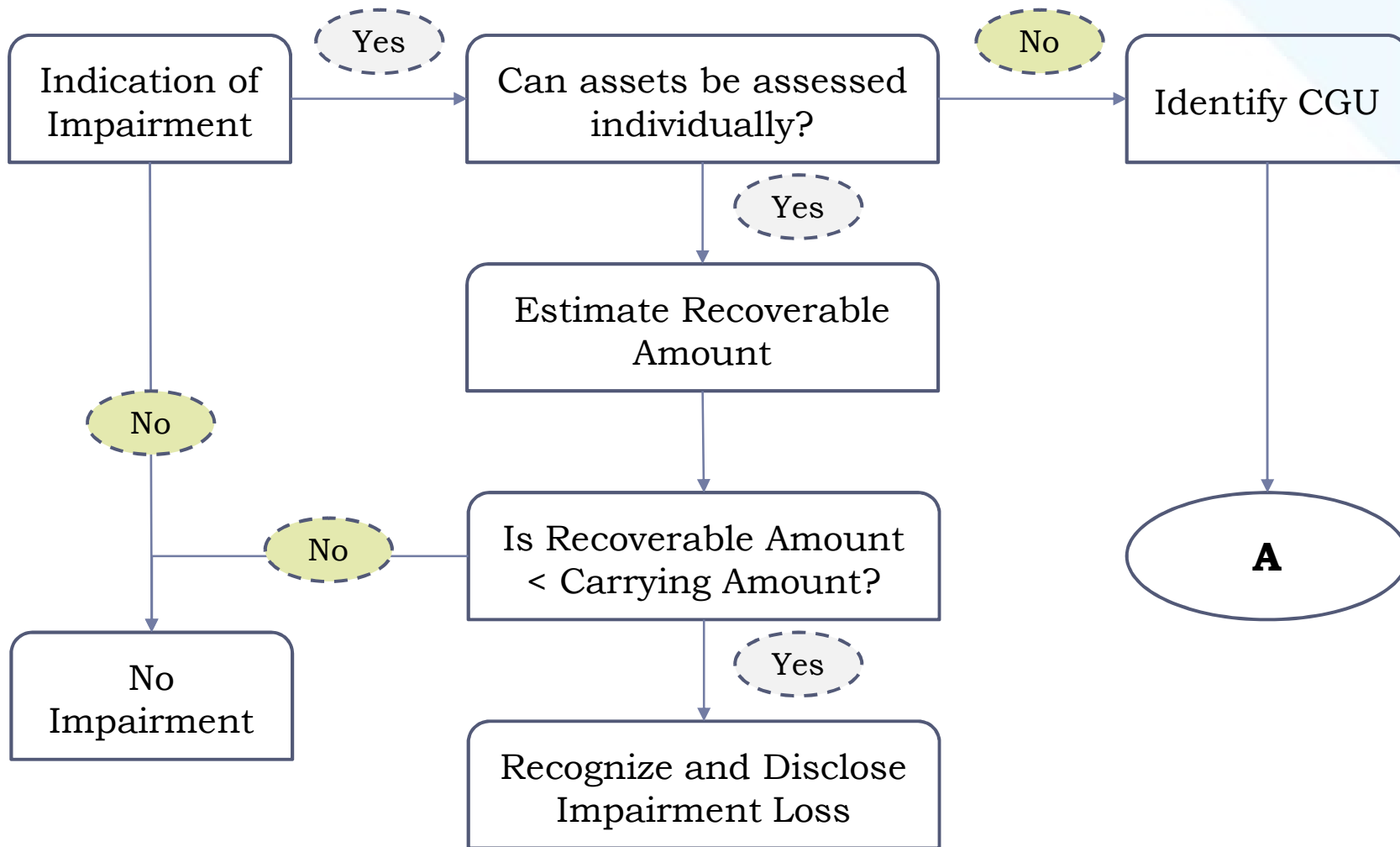
Cash Generating Unit – Example 3

- ▶ The production line is not impaired, therefore, no impairment loss is recognised for the machine.
 - ▶ Nevertheless, the enterprise may need to reassess the depreciation period or the depreciation method for the machine. Perhaps, a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the machine or the pattern in which economic benefits are consumed by the enterprise
-

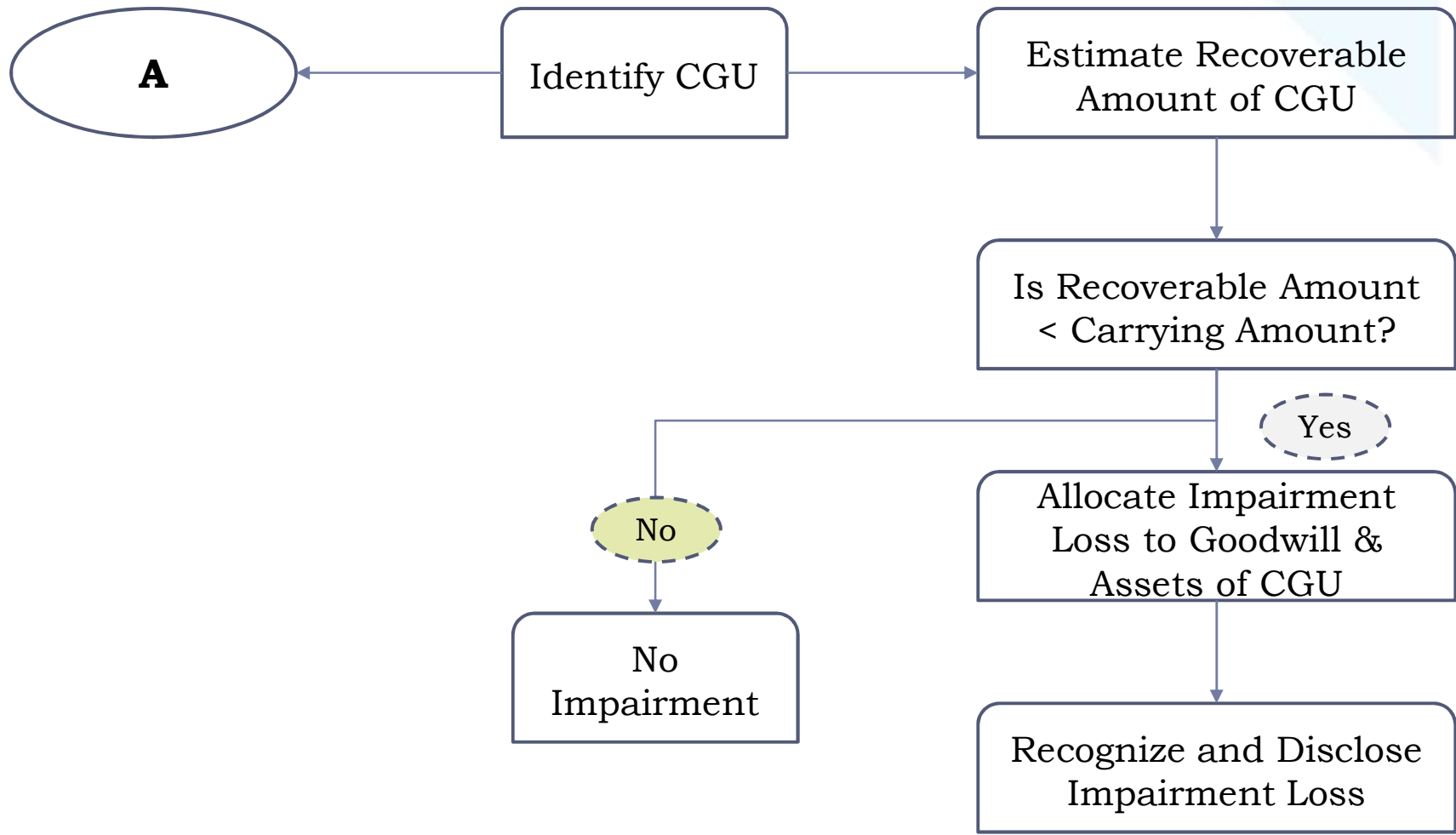
Cash Generating Unit – Example 3

- ▶ In the same example, if Goodwill has been recognised in the books of accounts then -
 1. If this goodwill can be allocated to the production line, then the production line will be considered as CGU and impairment loss will be calculated using the Bottom Up approach.
 2. If however, the goodwill cannot be allocated to the production line, then the factory unit which includes this production line and for which the Goodwill can be allocated reasonable, will be tested for impairment.
-

Snapshot of AS 28



Snapshot of AS - 28



Impact of Impairment on Deferred Tax

Impairment loss will lead to timing difference

If an impairment loss is recognized, effect relating to deferred tax assets or liabilities will be determined under AS – 22 (Accounting for Taxes on Income)

Reversal of Impairment Loss

Test at the Balance Sheet date whether previously recognized impairment loss continues to exist or whether it has been decreased

Check for any indicators for reversal of impairment losses recognized in the books previously

Recoverable Amount > Carrying Amount of the asset then reverse the Impairment Loss

Reversal of Impairment Loss – Internal Indicators

Significant changes including any capital expenditure incurred to improve or enhance an asset's performance

Economic performance of the asset is, or will be, better than expected

Reversal of Impairment Loss – External Indicators

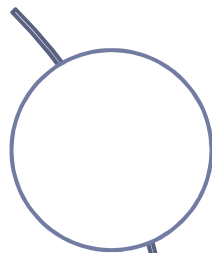
Asset's market value increased significantly

Significant changes in technological, market, economic or legal environment with favorable effect on the enterprise

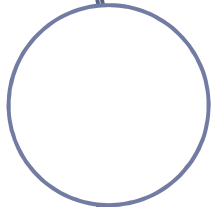
Market interest rates or other market rates of return on investments have decreased

Recognition of reversal of Impairment Loss

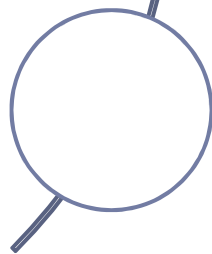
How do you recognize reversal of Impairment Loss?



As an income immediately in the statement of profit and loss



Reversal of an impairment loss on a revalued asset should be treated as a revaluation increase



After a reversal, the depreciation/ amortization for the asset should be adjusted in future periods to allocate the asset's revised carrying amount minus its residual value (if any), on a systematic basis over its remaining useful life

Reversal of Impairment Loss for CGU

Reversal of impairment loss of all assets other than Goodwill

Goodwill will be reversed only if the following conditions are satisfied:

- the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur
 - subsequent external events have occurred that reverse the effect of that event.
-

Impairment of discontinuing operations

Approval and announcement of a plan for discontinuance is an indication that the assets attributable to the discontinuing operation may be impaired

Enterprise estimates the recoverable amount of each asset of the discontinuing operation and recognizes an impairment loss or reversal of a prior impairment loss

A price in a binding sale agreement is the best evidence of an asset's (cash-generating unit's) net selling price or of the estimated cash inflow from ultimate disposal in determining the asset's (cash-generating unit's) value in use

Key Disclosures

Impairment loss recognized and reversed for each class of assets

Impairment loss set off against revaluation reserve and amount of reversal of impairment loss credited to revaluation reserve

Calculation of Recoverable Amount of each class of assets

Assumptions used in the calculation of Recoverable Amount

Events that lead to impairment

Description of Cash Generating Unit

Impairment Testing during Covid Times

This pandemic is an external indicator across all the industries

Management must consider at report date if the asset may be impaired

Recoverable amount of assets must be checked

Net Selling price could have gone down

Impact on future cash flows for calculating Value in Use

Impact on discount rate

AS – 28 VS Ind AS - 36

Ind AS 36 contains extra disclosures as compared to AS 28

Reversal of impairment loss on goodwill is not permitted under IND AS 36

Impairment shall be measured annually, whether there has been any indication of impairment:

- Goodwill
 - Intangible asset not yet available for use
 - Intangible asset with indefinite useful life
-

AS – 28 VS Ind AS - 36

There is no bottom-up or top-down approach for allocation of goodwill, in Ind AS 36

Applicable for Investments in subsidiaries, associates or joint ventures, which are accounted for, either at cost or at equity as per the respective Ind AS are subject to impairment under Ind AS 36

Not applicable to impairment of assets under discontinuing operations as it is covered by Ind AS 5 - Non-current Assets Held for Sale and Discontinued Operations

Challenges for practical application

Impairment
Indicators

Identification of
CGUs

Goodwill/Corporate
Asset allocation

Cash Flow
Estimation

Discount Rate
Estimation

Net Selling Price
calculation



MILIND
SANGORAM &
company

CHARTERED ACCOUNTANTS



THANK YOU

Prajakta Sangoram
prajakta@msnc.in
+91 9930433262
