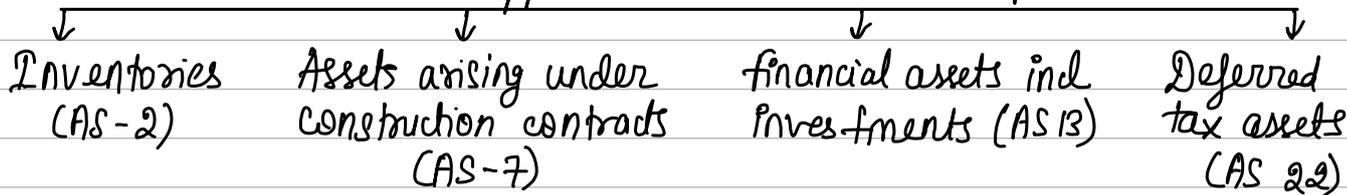


# AS 28 - Impairment of Assets

## 1. Impairment & Exclusions

• Impairment means "decline in value of assets" due to change in technology, market or economic environment

• This standard shall be applied to all assets except



## 2. Impairment Loss



**Impairment Loss** = Carrying amount  $\ominus$  Recoverable amount

↓ Cost $\ominus$ Accumulated Depreciation $(+/-)$ Revaluation gain / (loss) xxx	↓ Higher of :- a) Net Selling price b) Value in Use
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where,

• **Value in Use** = Present value of future cash flows [including Residual value] expected to be derived from asset.

\* Apply Pre-tax discount rate to these future cash flows to find P.V

↓  
If cash flows are in foreign currency, then use foreign currency discount rate to P.V & convert to ₹ using closing exchange rate

\* Estimated future expenditure to enhance performance of asset & tax should not be considered while calculating cash flows.

• **Net Selling Price** = Expected selling price  $\ominus$  Expected selling expenses  
 $\ominus$  Cost of disposal [✓ Commission  
X Finance cost / taxes]



- Allocate G/W & C/A to multiple CGUs for Impairment Testing in the following priority:

- 1) Ratio given in Qn
- 2) On Pro Rata Basis: use the below given formula to find ratio  

$$\Rightarrow \left( \frac{\text{Carrying amt of Other assets in CGU} \times \text{Useful life of CGU}}{\text{Useful life of CGU}} \right)$$

### Steps to be followed for calculation of IL on CGU

1. Calculate Impairment loss = Carrying amount of CGU  $\ominus$  Recoverable amt of CGU

↓

C.A of all asset in CGU [ Eg: PPE, Intangible, Inventory, etc.]  
 (+) C.A of Goodwill allocated to CGU  
 (+) C.A of Corporate assets allocated to CGU

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xxx

2. This Impairment loss will be borne in the following manner: (Bottom up)

- By Goodwill [upto its carrying amount]
- By Individual assets [upto its own Impairment loss calculated]
- By all other assets in CGU including Corporate assets in the ratio of their carrying amounts

\* No Impairment loss will be borne by Current assets [Eg: Inventory] in CGU since this asset is out of scope of this AS

3. Calculate Impairment loss for unallocable G/W or C/A: (Top Down)

Paticulars	CGU <sub>1</sub>	CGU <sub>2</sub>	CGU <sub>3</sub>	Unallocable G/W or C/A	Total
Carrying amount	xx	xx	xx	xx	xx
⇒ IL on each CGU	(xx)	(xx)	(xx)	-	(xx)
RCA of each CGU					A
Recoverable amount of Entity as a whole					B
Impairment loss borne by unallocable G/W or C/A					<u>A &gt; B</u>

Note:

IL is not recognized for a given asset if its CGU is not impaired.

**5. Reversal of Impairment Loss**: When Carrying amount < Recoverable amount

• **Reversal of IL** = Recoverable amount of asset on reversal date  $\Leftrightarrow$  Carrying amount on reversal date

\* Revised Carrying amount after Reversal should not exceed the C.A of asset on date of reversal if this asset were never Impaired

• **Reversal of Impairment Loss**: Generally recognized in P&L

However, if assets are carried at Revalued figures, then

- ① First, adjust with Revaluation surplus [upto balance in this A/c]
- ② Balance impairment loss to P&L A/c

JE: 1. Asset A/c  $\dots$  dr | 2. Impairment loss Reversal A/c  $\dots$  dr  
To Impairment loss reversal | To Revaluation surplus  
To P&L A/c

• **Revised Depreciation after Reversal**:

$$= \frac{\text{Revised Carrying amt [C.A before IL (+) Reversal of IL]}}{\text{Balance useful life}}$$

• **In case of CGU's, allocate the Reversal as follows:-**

- ① By Individual assets [upto its own Impairment loss calculated]
  - ② By all other assets in CGU including corporate assets [excluding goodwill] which were impaired earlier in the ratio of their CA
- \* No Reversal will be done on Goodwill.