AS 28
Impairment of Assets

Scope: Not applicable to assets covered by AS 2, AS 7, AS 13 & AS 22.
Applicable to PPE & Intangible Assets

Impairment Loss

Meaning

Impairment loss = Carrying Amount − Recoverable Amount

Carrying Amount → Book value after Depreciation & Amortisation at year end (This is after Revaluation)

Recoverable Amount → $\boxed{\text{Higher}}$ of Net Selling Price* or Value in use**

* Net Selling Price = Expected Sale Price of Asset − Estimated selling Expenses (Excl. Tax & Finance Costs) (Eg. commission)

→ Based on Price in Active market, Binding Sale Price or management best judgement

Accounting Treatment

- Entry:
  1) Revaluation Reserve A/c −Dr
     Impairment loss A/c −Dr
     To Accumulated Impairment loss A/c
  2) P&L A/c −Dr
     To Impairment loss A/c
- Balance Sheet

Asset (Cost)	xxx
− Acc. Depreciation	(xxx)
− Acc. Impairment loss	(xxx)
	xxx

- Depreciation of future periods will get reduced due to Impairment loss
- Income Tax does not allow this, hence create Deferred Tax Assets on it.

** Value in Use

- Present value of $\underbrace{\text{Net Cash Inflows}}_{\text{Gross Inflows - Outflows to generate Inflows}}$ from continuous use of asset & its residual value

- Such net cash flows should be reasonable & supportable to assumptions of management.
- Cash flows should be taken for maximum 5 years, unless justified
- Generally most recent management forecasts & budgets are used for calculation of net Inflow
- Outflows include repairs for which management is committed.
- Discount Rate should be Pre Tax CAPM.

Indicators of Impairment loss

External

* Low market capitalisation
* Market Price of asset has declined substantially
* Unfavourable market conditions against entity in regard to demand, technology, Govt. policies, etc.
* Market Interest rates have increased substantially.

Internal

* Poor Economic Performance by Asset
* Physical Damage to asset
* Company has plans of Restructuring or Discontinuation.

Note: If Recoverable Amount > Carrying Amount, ignore the difference & asset shown at same book value

: Review Useful life, residual value or depreciation method as per AS 10.

Cash Generating Unit (CGU)

Smallest identifiable group of assets working together to generate cash flows that are largely independent of cash inflows from other assets or group.

If asset is capable of generating cash flows on independent basis, then such single asset is CGU else identify the lowest aggregation of assets that generate independent cash inflows.

Carrying Amount of CGU: Summation of carrying amount of all assets grouped under 1 CGU. Includes liability only if it is necessary to be considered.

Impairment Loss for CGU:

- First to Goodwill allocated to CGU &
- Then to other assets on prorata basis based on carrying amount of each asset in CGU.

Goodwill: Does not generate cash flows independently from other assets or group of assets therefore recoverable amount cannot be determined.

Case 1: If G/w can be allocated on reasonable & consistent basis: Apply Bottom up test only.

Case 2: If G/w cannot be allocated on reasonable & consistent basis: Apply both Bottom up Test & Top Down Test.

Corporate Assets: Administrative assets like HO Building, EDP Equipment, Research unit, etc.

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Same Treatment like Goodwill.

Reversal of Impairment Loss

If Indicators due to which Impairment loss recognised earlier, no longer exist then Impairment loss to be reversed.

* Reversal is Lower of following :
  * Recoverable Amt. – Carrying Amt. OR
  * Impairment loss recorded earlier

Note: Goodwill written off can be reversed only if certain conditions are met.

Disclosure Requirements :

* Impairment loss recorded in P&L A/c
* Impairment loss adjusted with Revaluation Reserve
* Segments affected by Impairment
* Indicator used for calculations
* Assumptions applied in calculation of Recoverable Amt.
* CGU & its identification
* Impairment loss reversed during year.