AS 28 → Impairment of Assets

Decline in value of Assets → AS 10 - PPE
AS 26 - Intang. Asset

1] Scope

This standard is applicable on all assets **Except:**

- → Inventories (AS 2)
- → Assets arising under construction contracts (AS 7)
- → Financial assets including investments covered under (AS 13)
- → Deferred Tax Assets (AS 22)

2] When is an asset impaired?

→ when carrying Amount is more than Recoverable Amount.
(BIS value)

3] Recoverable Amount

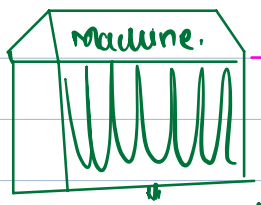
Higher of :

1) value in use (Present value of future cash flows from using the asset)
2) Net selling Price

Eg: Impairment Test

Parle & Ltd

(Biscuit manufacturing)



Today if we sell this machine → 01.04.X2 Sales Price 40L

(-) Cost of disposal (2L)
(Selling cost / cost to sell)

Net Selling Price 38L

Use Machine to manufacture Biscuits

01.04.X2 (Remaining life 5yrs)

Future Years	Cash flows (Expected) from using the machine (By selling biscuits)	D.F @ 10% ($\frac{1}{1.10}$)	Present value
1	10L	0.909	
2	15L	0.826	
3	10L	0.751	
4	15L	0.683	
5	12L (+) Scrap value (if any)	0.621	
			46.70L approx

46.70L approx → Value in use

Recoverable Amount on 01.04.X2

① Value in use = 46.70L

② Net selling Price = 38L

Assume ① CA on 01.04.X2 → 50L (Given)

R.A on 01.04.X2 → 46.70L

Imp loss 3.3L

② CA on 01.04.X2 → 40L (Given)

R.A on 01.04.X2 → 46.70L

Imp loss – ~~Imp Gain~~

* Value in use

- It is present value of future cash flows expected to be generated from using the asset.
- To calculate value in use, we need two things

(a) Expected future cash flows

Cash inflows from using the asset

less: Cash outflows (if any) which are incurred to generate inflows

Just Add: Residual value of asset at the end of useful life (Add in last year cash flow)

(b) Discount Rate

Use Pre-tax discount rate.

(eg. Discount Rate Pretax 10% ✓

" " Post tax 7% ✗)

180 bottle

* Net Selling Price

Selling Price	xxx
(-) Cost of disposal / Sell cost / Cost to sell	(xx)
	xx

Illus 1 (CDR)

(a) Carrying Amount on 31-12-11 (₹ in lakhs)

Cost of PPE on 01-01-2009 = ₹40,000 (Life 8 yrs, Residual value → 1000)

Less: 3 years Depn = (14625)

$\left(\frac{40000 - 1000}{8 \text{ yrs.}}\right) \times 3 \text{ yrs}$

CA @ the end of 2011 25375

(b) Value in use on 31-12-2011

$\frac{1}{1.15}$ = = = =

Year	Cash flows	D.F @ 15%	PV
2012	4000	0.870	3480
2013	6000	0.756	4536
2014	6000	0.658	3948
2015	8000	0.572	4576
2016	4000 + 1000 (Scrap Value)	0.497	2485
			19025 approx

Value in use = 19025

(c) Recoverable Amount on 31|12|x1

Higher of:

Value in use = 19025

Net selling price = 20000 (Given)

∴ Recoverable Amount = 20,000

(D) Impairment loss

CA on 31·12·X1 = 25375

R·A on 31·12·X1 = 20000

Imp loss 5375 → J.E. Imp loss (PIL) 5375

TO PPE 5375

(E) Revised carrying Amount

Revised CA on 31·12·X1 = 20000 (Remaining life = 5yrs, Residual value = 1000)

(F) Depreciation for 2012

CA 31·12·X1 = 20000

less: Deprn for 20X2 (3800) $\left(\frac{20000 - 1000}{5yr}\right) \times 1yr.$

4] Treatment of Impairment loss

If asset is at cost model

↓

Transfer Impairment loss to PIL

↓

J.E. Imp loss (PIL)

TO PPE/Intang. Asset

If asset is at Revaluation Model

↓

- First adjust Impairment loss from Bal of Revaluation Reserve (if any).
- Remaining Imp. loss will be trf to PIL.

↓

Refer Eg. Below.

Eg: PPE (carried at Revaluation model)

CA = 100 cr (PPE was previously revalued and had a Balance of 5cr in Revaluation Reserve)

RA = 83cr

Imp loss 17cr → First adj R.R upto 5cr
Bal trf to PIL 12cr

J.E.
Imp loss (Revaluation Reserve) 5cr
Imp loss (Profit/loss) 12cr
TO PPE 17cr

After Impairment, Bal in Revaluation Reserve → NIL

Illus 3 (UDR) (₹ in crores)

Cost of PPE on 01.04.20X0	7cr	(life 7yrs, Scrap value - NIL)
Less: 4 years Deprn (7cr × 4yrs/7yrs)	(4cr)	
CA on 31.03.X4 / CA on 01.04.X4	3cr	
Fair value on 01.04.X4	5.10 cr	
Revaluation surplus	2.10 cr	Trf to → Revaluation Reserve - 2.10 cr

Revised CA on 01.04.X4 (after Revaluation)	5.10 cr	(Remaining life = 3yrs)
Less: Depr for 2yrs (5.10cr × 2yrs/3yrs)	(3.4cr)	
CA on 31.03.X6	1.7cr	
Recoverable Amount on 31.3.X6	0.79cr	
Impairment loss	0.91 cr	
Adjust from Revaluation Reserve	0.70 cr	
Bal. Adjust from PIL	0.21cr	
Revised CA on 31.3.X6 (after Impairment)	0.79cr	

Imp loss (RR) 0.70cr
Imp loss (PIL) 0.21cr
TO PPE 0.91cr

Balance in Revaluation Reserve = 2.10 cr

less: Excess Deprn tfr to Ret. Earnings = (1.4 cr)

Bal in R.R. 0.70 cr

Jun 19 CMA Excess Deprn

Deprn p.a. Before Revaluation = 1 cr p.a.

Deprn p.a. after Revaluation = 1.7 cr p.a

Excess Depr 0.7 cr

(x) 2 yrs → (Co. has charged excess Deprn for 2 yrs after Revaluation)

Tfr from Rev. Rese to Ret. Earnings 1.4 cr.

5] Can Recoverable Amount be negative? → NO (it can be zero)

CA = 100 cr

R.A = zero

} Imp. loss will be full 100 cr.

value in use = zero (Given)

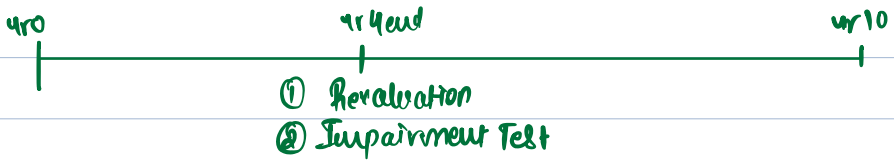
Net selling Price (10 cr)

selling price = zero

Cost of disposal = (10 cr)

sometimes this -ve 10 cr is to be booked as liab under some other AS (eg: AS 29)

Note: Once asset is impaired, the Depreciation changes prospectively & is calculated on Revised carrying Amount after Impairment.



Illus 4

Cost of PPE (Day 1)	150 lakhs	
less: 4 yrs Deprn (SLM Basis) @ 10% p.a.	(60 lakhs)	((150 × 10%) × 4 yrs) (life 10 yrs)
CA @ the end of Yr 4	90 lakhs	
Fair value @ the end of Yr 4	75 lakhs	
Revaluation loss	15 lakhs →	Trf to P/L

Revised C.A (after Revaluation) @ the end of Yr 4 — 75 lakhs (Remaining life 6 yrs)

Recoverable Amount (WN)	64.5 lakhs	
Impairment loss	10.5 lakhs →	Trf to P/L.

There is no bal in RR. ∴ full Imp loss of 10.5 lakhs will be trf to P/L.

WN Recoverable Amount

Value in use	60 lakhs
Net selling price (67.5 (-) 3)	64.5 lakhs

Illus 7 As per "AS 28, Impairment of Assets" impairment test is to be conducted by comparing carrying Amount & Recoverable Amount.
If carrying Amount is more than Rec. Amt, then asset is impaired.
In this case carrying Amount is 6,00,000 & Recoverable Amount is zero.
∴ Full 6,00,000 will be booked as Impairment loss & transferred to P/L

Carrying Amount = 6,00,000

Rec. Amt 0

Imp loss 6,00,000 (Trf to P/L)

Recoverable Amt

Value in use = zero

Net Selling Price = (70000)

(Does not meet legal requirements so cannot be used)

(S.P is zero & cost of disposal is 70000)

Illus 8

(a) Calculate Imp. loss

CA	500
R.A	400
Imp loss	100

(↑ of VIU = 400, NSP = 375)

(b) Journal Entry

Imp loss (P/L)	100	
To PPE		100

} ICAI - 2 entries (Not required)

(c) Balance Sheet Extract

Asset		
Non-Current Assets		
PPE	500	
less: Imp loss	(100)	400

Illus 10 → Refer Q.B

Illus 11 (LDR)

Cost of Plant	5 crores
Less: Accumulated Deprn	(4.15 crores)
CA on 31.03.X1	0.85 crores
Less: Curr year (X1-X2) Deprn	(0.25 crores)
CA on 31.3.X2	0.60 crores
R.A on 31.3 X2	0.245 crores
IL	0.355 crores.

WN R.A on 31.03.X2

NSP 31.03.X2 = 24 lakhs (31.3.X1) (30L (-) 20%.)

VIU 31.03.Y2 = 24.5 lakhs (35L (-) 30%.) 01.04.X1

(a) C.A on 31.3.X2

Revised C.A on 31.3 X2 (after Imp loss) = 0.245 crores (or) 24.5 lakhs

(b) Amt written off i.e. Imp loss Amt = 0.355 crores

(c) Bal in R.R = 0.12crores, Treatment of Imp loss

First Adj against Reval. Reserve = 0.12crores

Bal Imp loss → Trf to PIL = 0.235 crores (0.355 - 0.12)

(d) If Recoverable Amt is zero

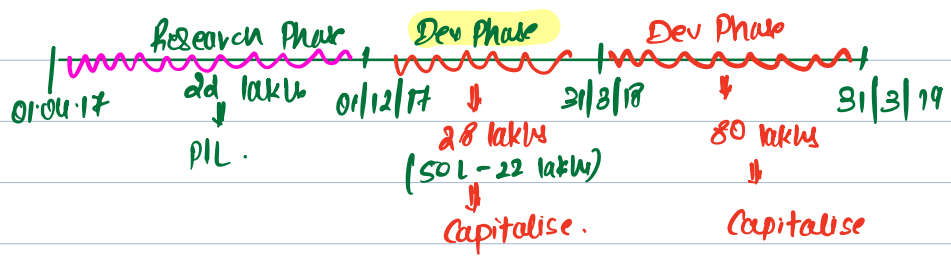
CA (Before Imp loss) on 31.03.X2	0.60 crores
R.A on 31.03.X2 (WN)	0
Imp loss	0.60 crores
Revised CA (after Impairment)	0

WN

1) Value in use = 0

2) NSP = (2 lakhs) or 0.02 crores (sell price → 0, cost of disposal 2 lakhs)

Ques 1



(a) For 31.3.18 → Amount Trf to PIL & C.A of Intangible Asset

Expenditure till 01.12.17, was incurred under Research Phase (as per AS 26)

∴ 22 lakhs will be trf to PIL.

Expenditure from 01.12.17 to 31.3.18 was incurred under Development phase

∴ 28 lakhs will be capitalised

CA on 31.3.18 28 lakhs

(b) For 31.3.19, Amount tf to PL & CA of Intangible Asset

Expenditure during 2018-19, was incurred under development phase.

∴ ₹ 80 lakhs will be capitalised.

CA on 31.3.18	28 lakhs
(+) Dev Phase 18-19	80 lakhs
CA on 31.3.19	108 lakhs
R.A on 31.3.19	72 lakhs
Imp loss	36 lakhs

Amount tf to PL (Imp loss) = 36 lakhs

CA on 31.3.19 (after Impairment) = 72 lakhs

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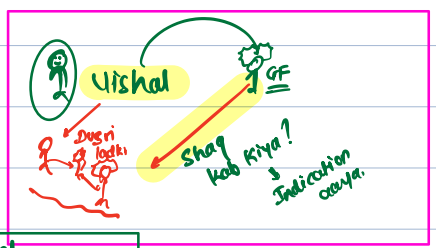
6. When to conduct Impairment Test ?



Conduct Impairment Test whenever there is a indication of impairment

Indication aaya toh it does not mean impair hogaya. It means conduct impairment Test

External Sources	Internal Sources
1) Assets market value has declined	1) Physical Damage to the asset
2) Signicant changes in Technology, market conditions which has Adverse (negative) effect on the entity	2) Asset has become idle or there is a plan to dispose the asset.
3) Market Interest rates have increased due to which PV of value in use might reduce.	3) Performance of asset is worse than expected.

eg C.F 100 → PV = ?

D.F = 10% = 90.90 (1/1.10)

D.F. = 12% = 89.29 → 1 (1/1.12)

7. Cash Generating unit (CGU)

→ To conduct impairment test of individual asset, it is necessary to calculate value in use of that asset.

→ Sometimes individual asset do not have individual value in use (eg Ipad of AK sir)

∴ Individual asset impairment test might not be possible.

→ In such case we will conduct impairment test as a CGU.

CGU is a group of assets that generates cash flow together (eg. AK Sir's Teaching Set up (Ipad, laptop, Mic, camera).

→ A single company can have multiple CGU's.

Eg① Impairment testing of a CGU

CGU	laptop	Camera	Mic	Ipad	Total
Carrying Amt (Given)	200	300	100	50	650
Recoverable Amt (Given)					520
Imp loss	(40)	(60)	(20)	(10)	130
	$(130 \times \frac{200}{650})$	$(130 \times \frac{300}{650})$	$(130 \times \frac{100}{650})$	$(130 \times \frac{50}{650})$	↓ Allocate between All 4 Assets in the ratio of C.A.
Revised CA (after Imp loss)	160	240	80	40	520

Eg 2: Goodwill → Individual Impairment Test → Not possible

∴ Allocate goodwill to CGU's for the purpose of impairment Test.

AK Ltd
- CGU 1 (Online Teaching Set up) [laptop, Camera, Ipad]
- CGU 2 (Offline Teaching Set up) → [Furniture, Projector, Mic]

Goodwill = 2,00,000

Case ①: Goodwill has Benefit is both CGU's in the ratio of 25% in CGU 1 & 75% in CGU 2

Case ②: Goodwill provides Benefit is both CGU's but it is not possible to allocate in any ratio.

Glw is allocable → Bottom up Approach

Glw is unallocable [use Both Bottom up Approach & Top down Approach]

Case ①: Benefit in Both CGU [25% in CGU 1 & 75% in CGU 2]

CGU 1	Laptop	Camera	Ipad	Goodwill	Total
CA (Given)	10L	5L	5L	0.5L (2L × 25%)	20.5L
RA (Given)					18L
Imp loss	(1L) (2L × 10L/20L)	(0.5L) (2L × 5L/20L)	(0.5L) (2L × 5L/20L)	(0.5L)	2.5L (1st allocate in glw = 0.5L; Bal 2L = Other Assets in C.A ratio)
Revised C.A (after Imp loss)	9L	4.5L	4.5L	-	18L

CGU 2	Furniture	Projector	Mic	Glw (2L × 75%)	Total
CA (Given)	8L	4L	4L	1.5L	17.5L
RA (Given)					20L
Imp loss					-

Case 2: Glw is unallocable in CGU 1 & 2 (Follow Bottom up Approach + Top down approach)

Do Imp testing 2 times

1st → Test individual CGU's (without Glw) → Bottom up Approach

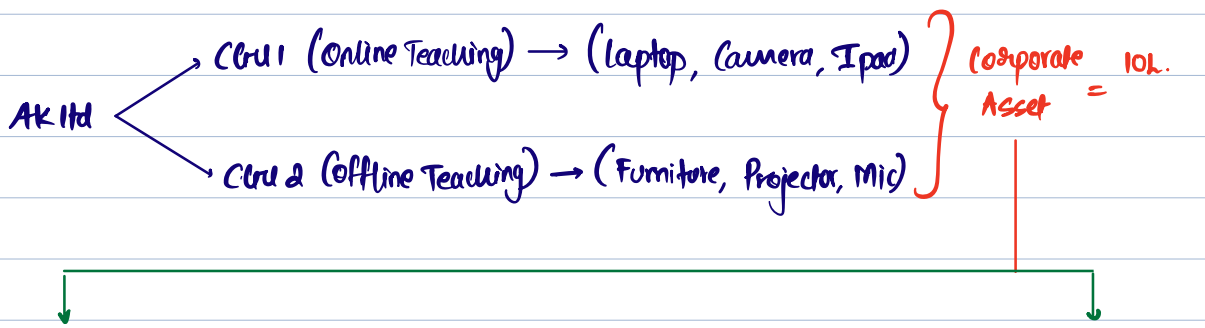
CGU 1	Laptop	Camera	Ipad	~~Glw~~	Total	
CA (Given)	10L	5L	5L	-	20L	
RA (Given)					18L	
I.L	(1L)	(0.5L)	(0.5L)	-	2L →	No Glw. ∴ allocate in all assets in ratio of C.A.
Revised CA	9L	4.5L	4.5L		18L	

CGU 2	Furniture	Projector	Mic	~~Glw~~	Total
CA (Given)	8L	4L	4L		16L
R.A (Given)					17L
Imp loss					-

2nd → Combine CGU1 + CGU2 + Goodwill → Top down approach

	CGU 1 (Lap, Cam, Ipad)	CGU 2	Glw	Total	
CA (Revised)	18L	16L	2L	36L	
RA (Given)				35.5L	
Imp loss	-	-	(0.5L)	0.5L →	Allocate to Glw
Revised CA	18L	16L	1.5L	35.5L	

Eg 3: Corporate Assets (eg. Admission office) → Individual Impairment test not possible
∴ Allocate to CGUs for impairment test.



Case ①: Corporate Asset has Benefit in Both CGU's in ratio of 30% in CGU 1 & 70% in CGU 2
⇓
Corporate Asset is allocable
(Bottom up Approach)

Case ②: Corporate Asset has Benefit in Both CGU's but is not allocable in any ratio
⇓
Corporate is unallocable
(Two times testing)
⇓
Bottom up + Top down

Case ① in ratio of 30% in CGU 1 & 70% in CGU 2

CGU 1	laptop	Camera	Ipad	Corporate Asset (10L × 30%)	Total
CA (Given)	10L	5L	5L	3L	23L
RA (Given)					20L
Imp loss	(1.3L) (3L × 10L/23L)	(0.6S) (3L × 5L/23L)	(0.6S) (3L × 5L/23)	(0.40) (3L × 3L/23)	3L ✓ Allocate in all assets in ratio of carrying Amount. ~~1st allocate in loop Asset~~
Revised CA	8.7L	4.35L	4.35L	2.6L	20L

				(10%)	
CGU 2	Furniture	Projector	Mic	Corp. Asset	Total
CA (Given)	8L	4L	4L	7L	23L
RA (Given)					25L
Imp loss					-

Case 2: Corporate Asset is not allocable

Two times testing

1st → Test individual CGU's (without Corporate Asset) → Bottom up Approach

CGU 1	laptop	Camera	Ipad	~~Corp Asset~~	Total
CA (Given)	10L	5L	5L		20L
RA (Given)					18L
IL	(1L)	(0.5L)	(0.5L)		(2L)
Revised CA	9L	4.5L	4.5L		18L

CGU 2	Furniture	Proj.	Mic	~~Corp Asset~~	Total
CA (Given)	8L	4L	4L		16L
RA (Given)					17L
I.L					-

2nd Test CGU 1 + CGU 2 + Corp Asset → Top down Approach

	CGU 1	CGU 2	Corp Asset	Total
CA (Revised)	18L	16L	10L	44L
RA (Given)	-	-	-	46L
I.L				- ↓ NO IL is 2nd stage of testing.

Eg4 One CGU + one Corp. Asset + GW

CGU	Laptop	Camera	Ipad	Corp. Asset	GW	Total
CA (Given)	10L	5L	5L	10L	2L	32L
RA (Given)						25L
I.L	(1.67) (5L × 10L/30L)	(0.83) (5L × 5L/30L)	(0.83) (5L × 5L/30L)	(1.67) (5L × 10L/30L)	(2L)	7L
Revised CA	8.33	4.17	4.17	8.33	-	

7L → 1st allocate in GW 2L; Bal 5L in other Assets

Solved Example 1 (LDR)

CGU A, CGU B, CGU C → Test for impairment; NO Test

GW → 120 → case (A) its allocable in A, B, C in ratio of Dec (1) fair value (i.e. 1200:800:400)

Case A : GW is allocable (Bottom up Test)

At the end of 20x4 (Impairment Test of CGU A)

CGU A	Other Assets	GW	Total
CA (20x4)	1300	60	1360
AA (20x4)			1350
IL		(10)	10 → Allocate in GW
Revised CA	1300	50	1350

WN GW Allocation

GW	A	B	C	Total
	60	40	20	120
	$(120 \times \frac{1200}{2400})$	$(1200 \times \frac{800}{2400})$	$(1200 \times \frac{400}{2400})$	

Case B : GW is unallocable (2 times testing) → Bottomup + Top down

↳ only A (B & C → Testing not asked by question)

1st Time Test → Individual CGU (without GW) → Bottom up Test

CGU A	Other Assets	~~GW~~	Total
C.A	1300	-	1300
R.A			1350
I.L			-

2nd Test → Combine CGU A + CGU B + CGU C + GLW (Top down Test / Approach)

	CGU A	B	C	GLW	Total
CA	1300	1200	800	120	3420
RA (Given)					3400
Imp loss	-	-	-	(20)	(20) → Allocate in glw
Revised CA	1300	1200	800	100	3400

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* Allocation of Impairment loss in CGU

1) 1st allocate impairment loss to Glw of that CGU
2) Bal loss if any will be allocated to other Assets including Corp Assets.

Ques 3 (LDR)

* Corporate Assets

① Headquater Building

As per AS 28, individual impairment test of corporate asset is not possible. Hence corporate asset is to be allocated to CGU's.

In this case, it is mentioned that corporate asset can be allocated to individual CGU's i.e. A, B, C . Therefore only bottom up test is necessary.

② Research centre

Since the carrying Amount of research centre cannot be allocated to individual CGU's

∴ top down test will also be done in addition to bottom up test

Allocation of Headquater Building to CGU A, B, C. (₹ in lakhs)

150 lakhs → Allocated in the ratio of carrying Amt & Useful life (ICAI Assumption)

	A	B	C
C.A	100	150	200
(x) Life	10 yrs	20 yrs	20 yrs
weight of CA & Life	1000	3000	4000
Allocation of 150 lakhs	18.75 $\left(150 \times \frac{1000}{8000}\right)$	56.25 $\left(150 \times \frac{3000}{8000}\right)$	75 $\left(150 \times \frac{4000}{8000}\right)$

Research centre → Not allocable to individual CGU's.

1st Test → Bottom up Test (₹ in lakhs)

CGU A	Other Assets	Corp Asset Head qtr Bldg	Total
CA 31.3.18	100	18.75	118.75
RA 31.3.18			199
Imp loss			–

CGU B	Other Assets	Corp Asset Head qtr Bldg	Total
CA 31.3.18	150	56.25	206.25
RA 31.3.18			164
Imp loss	(30.73) $(42.25 \times 150/206.25)$	(11.52) $(42.25 \times 56.25/206.25)$	(42.25)
Revised CA 31.3.18	119.27	44.73	164

		Corp Asset	
CGU C	Other Assets	Headqtr Bldg	Total
CA 31.3.18	200	75	275
RA 31.3.18			271
Imp loss	(2.91)	(1.09)	4
	(4x200/275)	(4x75/275)	
Revised CA	197.09	73.91	271

2nd Test: Top down Test (CGU A + B + C (includes Headqtr Bldg) + Research Centre)

	CGU A	CGU B	CGU C (includes Headqtr Bldg)	Research Centre	Total.
CA (Revised) 31.3.18	118.75	164	271	50	603.75
RA 31.3.18					720
Imp loss					-

In top down test, there is no loss.

Ques 5 (LOR)

CGU	(life 5yrs) Other Assets	(life 4yrs) Goodwill	Total
CA 31.3.16	6000	2000	8000
Less: 2yrs Deprn/Amortn	(2400) (6000 x 2yrs/5yrs)	(1000) (2000 x 2yrs/4yrs)	(3400)
CA 31.3.18	3600	1000	4600
RA 31.3.18 (WN)			3459.4
Imp loss	(140.6)	(1000)	1140.6
Revised CA 31.3.18	3459.4	–	3459.4

WN Calⁿ of Value in use (NSP not available) ∴ VIU = R.A.

Yr	C.F	D.F @ 8%	PV
2019	800	0.926	740.80
2020	800	0.857	685.6
2021	800	0.794	635.2
2022	600	0.735	441
2023	600	0.681	408.6
2024	500	0.630	315
2025	400	0.583	233.2
		Value in use	3459.4 approx

8. Reversal of impairment loss

→ An impairment loss which was previously booked on an asset, can be reversed in future.

→ An impairment loss which is booked on GW can be reversed but subject to certain conditions. Please note if 5 yrs of goodwill has lapsed then impairment loss of goodwill cannot be reversed.

→ J.E for Reversal of Imp loss — PPE TO Reversal of Imp loss (PIL)

If Imp loss Booked in PIL	If Imp loss adjusted from RR
Then Reversal also thru PIL	Then Reversal also thru RR

Eg① Reversal of Imp loss (Individual Asset)

PPE Day① 01.04.x2 ₹200 (life 10yrs)

less: 2yrs Deprn (200×2/10) (40)

Indication of Imp.
- CA 31.03.x4 160
- RA 31.03.x4 120 (Given)

Imp loss 40 → J.E. Imp loss (PIL) 40 TO PPE 40

Revised CA 31.03.x4 (after Impairment) 120 (Remaining life 8yrs)

less: Deprn x4-x5 (120/8yrs) (15)

CA 31.03.x5 105

less: Deprn x5-x6 (15)

Indication of Reversal of Imp.
- CA 31.03.x6 90
- RA 31.03.x6 140

Actual Reversal of Imp 50

Max Reversal of Imp 30 → J.E. PPE A/c DR 30 TO Reversal of Imp loss (PIL) 30

Revised CA 31.03.X6 (after Reversal) 120 (Remaing life 6yrs)
(90 + 30)
⇓
Reversal

WN 1 Calⁿ of Max Reversal of Imp loss on 31|3|X6

1) CA (if NO Imp) on 31|3|X6 120
(200 (-) 4 yrs Deprⁿ
⇓
01|04|X2 (80))

2) CA (after Imp) on 31|3|X6 (90)
Max Reversal of I.L 30

Eg②

01.04.X2 Cost 1000 (life 5yrs)
less: 1 yr Deprn (200)
31.3.X3 CA 800
R.A 650
Imp loss 150

Revised CA 31.3X3 650 (Remaining life 4yrs)
less: 1 yr Deprn (X3-X4) (162.5)
Indication of Reversal { CA 31.3.X4 487.5
R.A 31.3.X4 700
Actual Rev of Imp loss 212.5
Max Rev of Imp loss 112.5 ↓

Revised CA on 31.3.X4 600 (487.5 + 112.5)
(after Reversal)

WN Max Reversal of Imp loss
① CA on 31.3.X4 (if NO Imp) = 600
(1000 - 4 yrs Deprⁿ)
400
② CA on 31.3.X4 (after Imp) = (487.5)
Max Reversal 112.5

Ques 2 (UOR)

CGU	Other Assets (Life 15 yrs)	Goodwill (Life = 5yrs)	Total
End of 2014	4000	2000	6000
Less: 4yrs Depr^n/Amort^n	(1067) (4000 × 4yrs/15yrs)	(1600) (2000 × 4yrs/5yrs)	
CA @ the end of 2018	2933	400	3333
RA @ the end of 2018			2720
Imp loss	(213)	(400)	613
Revised CA (after Imp) @ the end of 2018	2720 (Remaining life 11yrs)	-	2720
Less: 2yrs Depr^n	(495) (2720 × 2yrs/11yrs)	-	
CA @ the end of 2020	2225	-	2225
R.A @ the end of 2020			3420

Actual Reversal of Imp loss 1195

Max Reversal of Imp loss 175 ↓

Revised C.A (after Reversal) = 2400
@ the end of 2020
(2225 + 175)

CON Max Reversal of Imp loss

i) CA of other Assets (if No Imp) @ the end of 2020 2400

[4000 (-) 6yrs Depr^n (1600)]
4000 × 6yrs/15yrs

ii) CA of other Assets (after Imp) @ the end of 2020 2225

Max Reversal 175

Reversal of Imp loss on goodwill cannot be done as life of goodwill is only 5yrs. But on date of Reversal 6 years have lapsed.

✱ Extra concept

If an individual asset is transferred to CGU for impairment testing then:

individual asset is impaired only if CGU is impaired.

Individual asset will NOT be impaired in CGU is NOT impaired.

↓

Illus 9

Illus 9

Rough work

CGU	Machine	Other Assets	Total
CA			3.46 cr
RA → VIU 54 ↑			54 cr
→ NSP 4.44			—

CGU

↓

Not impaired

Is my machine impaired?

↓

If CGU not impaired then machine also not impaired.

Question 4 (RTP May 18)

M Ltd. produces a single product and owns plants A, B and C. Each plant is located in a different continent. Plant A produces a component that is assembled in either plant B or plant C. The combined capacity of plants B and C is not fully utilised. M Ltd's products are sold world-wide from either plants B or C i.e. plant Bs production can be sold in plant Cs continent if the products can be delivered faster from plant B than from plant C. Utilisation levels of plant B and plant C depend on the allocation of sales between the two sites.

For each of the following cases, what are the cash-generating units for plants A, B and C?

Case 1: There is an active market for plant A's products. ⌐ Plant A → independent cash flow → 1st CGU

Case 2: There is no active market for plant A's products. Plant B&C → together cash flow → 2nd CGU.

Solution: ↳ Plant A, B, C → together cash flow → single CGU

Q2 (AS 26)

1st 5 months → Research Phase → 10 Lakhs → Trf to P/L.

1st Sept 2020 to 31st March 2021 → Dev Phase → BL → Capitalise.

01.04.2021	CA	8 Lakhs
01.04.2021	R.A	7.58 lakhs (WN)
	Imp loss	0.42

Revised CA (after Imp) 7.58 lakhs

WN Calⁿ of value in use (NSP Not available) ∴ VIU = R.A.

Yr	C.F	D.F@10%	PV
1	2L	0.909	1.82
2	2L	0.826	1.65
3	2L	0.751	1.50
4	2L	0.683	1.37
5	2L	0.621	1.24

Value in use 7.582 approx.