

COURSE ON IFRS

IND AS 36 Impairment

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SCOPE

The purpose of the Standard is to ensure that assets are carried at no more than their recoverable amount. If an asset's carrying value exceeds the amount that could be received through use or through selling the asset, then the asset is impaired and IAS 36 requires an entity to make provision for the impairment loss. Also sets out the situations where an entity can reverse an impairment loss.

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EXCLUSION

All assets OTHER THAN

- (a) inventories (*Ind AS 2 Inventories*);
- (b) assets arising from construction contracts (see *Ind AS 11 Cons. Contracts*);
- (c) deferred tax assets (see *Ind AS 12 Income Taxes*);
- (d) assets arising from employee benefits (see *Ind AS 19 Employee Benefits*);
- (e) financial assets that are within the scope of *Ind AS 39 Financial*
- (f) [Refer to Appendix 1];
- (g) biological assets related to agricultural activity (see *Ind AS 41 Agriculture*)
- (h) arising from an insurer's contractual rights under insurance contracts (*Ind AS 104 Insurance Contracts*; and
- (i) non-current assets (or disposal groups) classified as held for sale *Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations*).

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APPLIABILITY

The Standard does apply to

- Subsidiaries, associates, and joint ventures
- Property, plant, and equipment
- Investment property carried at cost
- Intangible assets and goodwill

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KEY TERMINOLOGY

Recoverable amount of an asset or a cash-generating unit. The higher of its fair value less costs to sell and its value in use.

Value-in-use. The discounted present value of the future cash flows expected to arise from an asset or a cash-generating unit.

Cash-generating unit. The smallest identifiable group of assets that can generate cash flows independently of the cash flows from other assets.

Impairment loss. Amount by which the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

Disposable Cost : incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense.

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PERIODICITY OF TEST FOR IMPAIRMENT

- An asset is impaired when its carrying amount exceeds its recoverable amount
- assess at the end of each reporting period whether there is any indication that an asset may be impaired.
- Even if there is no indication, following assets should be tested for impairment ANNUALLY:
 - An intangible asset that has an indefinite useful life
 - An intangible asset that is not yet available for use
 - Goodwill that has been acquired in a business combination

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INDICATION FOR TESTING

- External Sources
 - a decline in market value, interest rates, the
 - net assets > stock market Val- Eco, Tech, legal chgs
 - increases in market
- Internal sources
 - physical damage, obsolescence, idle, or if the asset is part of a restructuring, - Performance suffered
 - significant decline or reduction in the cash flows generated or to be generated from the asset
- On Impairment – useful life, depreciation, residual value may need adjustment

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DETERMINATION OF A RECOVERABLE AMOUNT

- Higher of
- a) FV less Costs to Sell
 - b) Value in Use
- If FV not possible, Value in Use is Recoverable Amt and vice –a - versa
 - For Intangible also same, provided it is part of CGU and value not changed significantly

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FAIR VALUE LESS COSTS TO SELL

- As per the Agreement , active market price, based on available information for arms length price, less cost to sell

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VALUE IN USE

- Estimates of Future Cash Flows
- Timing difference
- Discounting Factor Market risk-free interest rate
- Inherent uncertainties in the assets
- Any other factor affecting cash flow
- **ESTIMATION OF FUTURE CASH FLOWS**
- Based on supportable and reasonable financial budgets and forecast
- Max 5 yrs., > 5 yrs exceptional cases
- Not to include C/F from financing activities, tax effects
- Include, proceeds of disposal of assets

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RECOGNITION AND MEASUREMENT

- Recognise in P & L.
- Excess amt to be recognise as liability , if reqd by other standards
- **Cash-generating units and goodwill**

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APPROACH

Calculate Recoverable amount for an asset. However, if it is not possible to calculate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs should be calculated.

A cash-generating unit is the smallest identifiable group of assets that can generate cash flows from continuing use and that are mainly independent of the cash flows from other assets or groups of assets

G/W associated with the assets within CGU to be calculated.

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GOODWILL

- Carrying amt of G/W relating to minority interest is to be grossed up to compare the recoverable amt for impairment.

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TIMING OF TEST

- All assets if indications, annually
- Intangible assets, atleast annually.
- Buss Combinations during the year, before the end of FY
- Allocate Corporate Assets to CGU. If not possible,
 - CGU W/O orporate Assets
 - Smallest CGU so that Corporate Assets can be allocated
 Then test for impairment

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ALLOCATION OF IMPAIRMENT LOSS

- First reduce carrying amt of G/W, then the carrying amount of other assets of the unit should be reduced on a pro rata basis determined by the relative carrying value of each asset
- The carrying amount of any individual asset should not be reduced below the highest of its fair value less cost to sell, its value-in-use, and zero.
- If this rule is applied, the impairment loss not allocated to the individual asset will be allocated on a pro rata basis to the other assets of the group.

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ALLOCATION OF IMPAIRMENT LOSS -EXAMPLE

Asset	Book Value	FV less Cost to sell	Value in Use
Goodwill	14000		
Machine – 1	50000	45000	43000
Machine – 2	40000		
Machine – 3	30000	20000	23000
Conveypr Belt	10000		
TOAL	144000		
CGU suffered impairment loss of Rs. 40,000			
Determine the Impairment Loss			

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ALLOCATION OF IMPAIRMENT LOSS -EXAMPLE

Asset	Book Value	Impairment Allocated	Value after Impairment
Goodwill	14000	(14000)	-
Machine – 1	50000	(5000)	45000
Machine – 2	40000	(11200)	28800
Machine – 3	30000	(7000)	23000
Conveypr Belt	10000	(2800)	7200
TOAL	144000	(40000)	104000
First reduce Goodwill. Balance 26000 I Prop to Book Value i.e. 10K , 8K, 6K, 2K			
Bring Machine 1 to its 45K . Increase of 5K allocate to M/C 2,3, and Belt 32:24:8			
Now adjust M/C 3. Rs. 875 prop. i.e. 700 and Rs. 175			

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REVERSAL OF AN IMPAIRMENT LOSS

- Not applicable to G/W
- Same source of information, only if changes in estimates,
 - Max upto what the carrying amount would have been if the impairment had not occurred
- Recognise in Income Statement
- Adjust depreciation , carrying amt etc.
- Of CGU, pro rata to indiv assets.
- NO REVERSAL OF G/W

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DISCLOSURE

SEPARATE LIST

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QUESTIONS ? ? ? ?

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