CHAPTER

9

IND AS 36 – IMPAIRMENT OF ASSETS

CONCEPTS COVERED

1. INTRODUCTION
2. SCOPE
3. DEFINITIONS
4. IDENTIFYING AN ASSET THAT MAY BE IMPAIRED
   - IDENTIFYING AN ASSET THAT MAY BE IMPAIRED – GENERAL
   - INDICATIONS OF IMPAIRMENT
5. REQUIREMENT OF ANNUAL REVIEW
   - ITEMS REQUIRED TO BE TESTED FOR IMPAIRMENT AT LEAST ANNUALLY
   - INTANGIBLE ASSETS REQUIRED TO BE TESTED FOR IMPAIRMENT AT LEAST ANNUALLY
   - GOODWILL
6. VALUE IN USE
7. RECOGNISING IMPAIRMENT LOSS
8. CASH GENERATING UNIT
9. GOODWILL (AS 28)
10. REVERSAL OF IMPAIRMENT LOSS
11. SELF PRACTICE QUESTIONS

contact@rahulmalkan.com
www.rahulmalkan.com
rahulmalkan
rahulmalkan
prof.rahulmalkanRM

1. INTRODUCTION :

Assets as defined by Framework for preparation and Presentation of Financial Statements means "Any resource controlled by an enterprise and from which future economic benefit are expected by that enterprise from that resource.

As per the above definition assets represents future economic benefit and hence should be measured according to benefit expected out of it. However if there is decline in amount of benefit expected than the asset should be revalued to reflect the amount i.e expected benefit.

If the carrying amount of asset is more than its recoverable amount, the excess of carrying amount over its recoverable amount is called as Impairment Loss.

"Impairment Loss = Carrying Amount – Recoverable Amount"

2. SCOPE :

This Standard shall be applied in accounting for the impairment of all assets, other than:

1. Inventories (as covered in Ind AS 2)
2. Contract assets and assets arising from costs to obtain or fulfill a contract (Ind AS 115)
3. Deferred tax assets (Ind AS 12)
4. Assets arising from employees benefits (Ind AS 19)
5. Biological Assets measured at fair value less cost to sell (Ind AS 41)
6. Deferred acquisition costs and intangible assets arising from insurance contracts (Ind AS 104)
7. Non-current assets (or disposal groups) classified as held for sale (as covered in Ind AS 105)
8. Financial Assets (within the scope of Ind AS 109)

3. DEFINITIONS :

The following are the key terms used in this standard:

1. **Carrying amount** is the amount at which an asset is recognised after deducting any accumulated depreciation (amortisation) and accumulated impairment losses thereon.

2. The **recoverable amount** of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

3. **Fair value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (refer Ind AS 113 Fair Value Measurement).

4. **Useful life** is either: a) the period of time over which an asset is expected to be used by the entity; or b) the number of production or similar units expected to be obtained from the asset by the entity.

5. A **cash-generating unit** is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

6. **Corporate assets** are assets other than goodwill that contribute to the future cash flows of both the cash-generating unit under review and other cash-generating units.

7. **Costs of disposal** are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

8. **Depreciable amount** is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

9. **Depreciation (Amortisation)** is the systematic allocation of the depreciable amount of an asset over its useful life.

10. An **impairment loss** is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

11. **Value in use** is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

4. IDENTIFYING AN ASSET THAT MAY BE IMPAIRED :

4.1 IDENTIFYING AN ASSET THAT MAY BE IMPAIRED – GENERAL :

- An asset is impaired when its carrying amount exceeds its recoverable amount.

- An entity shall **assess** at the end of each reporting period whether there is any **indication** that an asset may be impaired. If any such indication exists, the entity is required to estimate the **recoverable amount** of the asset.
- Irrespective of whether there is any indication of impairment, an entity is required to test following items for impairment at least annually:

For above three assets, the entity should not have wait for Impairment indicators, rather there is mandate of impairment testing. We will discuss this aspect in detail in the next section.

Question 1 – Rainbow Limited

Jupiter Ltd, a leading manufacturer of steel is having a furnace, which is carried in the balance sheet on 31.03.2011 at Rs.250 lakh. As at that date the value in use and Fair value is Rs.200 lakh. The cost of disposal is Rs.13 lakh.
Calculate the Impairment Loss to be recognised in the books of the Company?

Question 2 – Venus Ltd.

Venus Ltd. has an asset, which is carried in the Balance Sheet on March 31, 2011 at Rs.500 lakh. As at that date the value in use is Rs.400 lakh and the fair value less costs to sells is Rs.375 lakh.
From the above data:
(a) Calculate impairment loss.
(b) Prepare journal entries for adjustment of impairment loss.
(c) Show, how impairment loss will be shown in the Balance Sheet.

Question 3 – X Ltd.

X Ltd. is having a plant (asset) carrying amount of which is Rs.100 lacs on 31.03.2015. Its balance useful life in 5 years and residual value at the end of five years is Rs.5 lacs. Estimated future cash flows from using the plant in next five years are :

For the year ended on	Estimated Cash flows (Rupees in lacs)
31.03.2016	50
31.03.2017	30
31.03.2018	30
31.03.2019	20
31.03.2020	20

Calculate "value in use" for plant if the applicable discounts rate is 10% and also calculate the recoverable amount if the net selling price of plant on 31.03.2015 is Rs.60.00 lacs.

Question 4 – Uttaranchal Industries Ltd.

Uttaranchal Industries Ltd. gives the following estimates of cash flows relating to fixed asset on 31.12.2015. The discount rate is 15%

Year	Cash Flows (Rs. In lacs)
2016	2000
2017	3000
2018	3000
2019	4000

2020	2000

Residual value at the end of 2020 is Rs.500 lacs

Fixed asset purchased on 01.01.2013 for Rs.20000 lacs

Useful life is 8 years

Residual value estimated Rs.500 lakhs at the end of 8 years

Net Selling price Rs.10,000 lacs

Calculate on 31.12.2015

a. Carrying amount at the end of 2015

b. Value is use on 31.12.2015

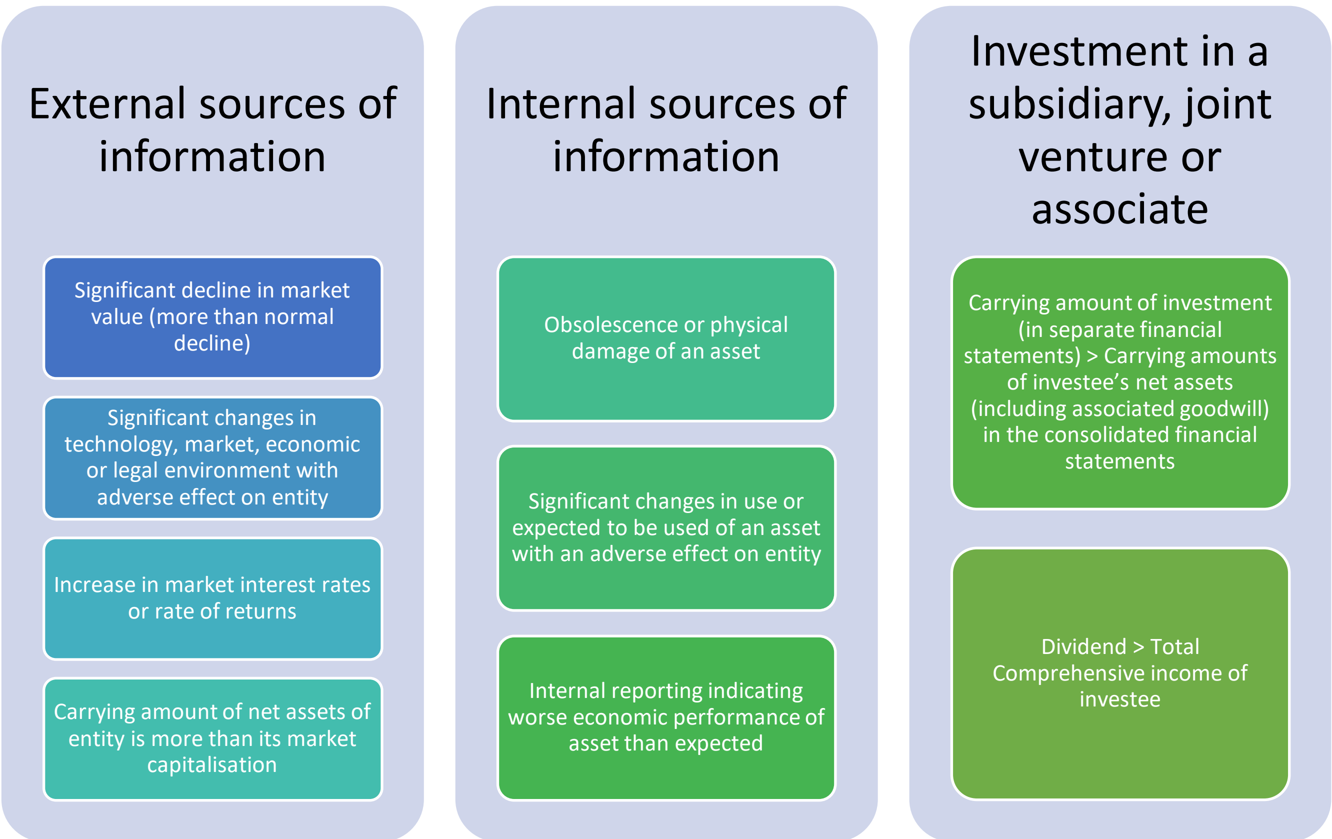
c. Recoverable amount on 31.12.2015

d. Impairment loss to be recognized for the year ended 31.12.2015

e. Revised carrying amount

f. Depreciation charges for 2016.

4.2 INDICATIONS OF IMPAIRMENT



5. REQUIREMENT OF ANNUAL REVIEW :

5.1 ITEMS REQUIRED TO BE TESTED FOR IMPAIRMENT AT LEAST ANNUALLY :

Irrespective of whether there is any indication of impairment, an entity is required to test following items for impairment at least annually:

a) intangible asset with an indefinite useful life;

b) intangible asset not yet available for use; and

c) goodwill acquired in a business combination for impairment.

5.2 INTANGIBLE ASSETS REQUIRED TO BE TESTED FOR IMPAIRMENT AT LEAST ANNUALLY :

Intangible asset with an indefinite useful life and intangible assets not yet available for use to be tested for impairment

a) annually; and

b) and whenever there is an indication, at the end of a reporting period, that the asset may be impaired

by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

- This impairment test may be performed at any time during an annual period, provided it is performed at the same time every year and whenever there is an indication, at the end of a reporting period, that the asset may be impaired.

Example :

Intellectual Property rights (IPR) having Indefinite useful life has been tested for Impairment in the first quarter of FY 20X1-20X2. Impairment testing on such assets needs to be mandatory done in the same time frame i.e first quarter of FY 20X2-20X3. Suppose, there is indication of impairment in third quarter of FY 20X2-20X3, in such case, the company needs to do impairment testing in third quarter apart from mandatory annual review.

- Different intangible assets may be tested for impairment at different times. However, if such an intangible asset was initially recognised during the current annual period, that intangible asset shall be tested for impairment before the end of the current annual period
- However, the most recent detailed calculation of such an asset's recoverable amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:
  a) if the intangible asset does not generate cash inflows from continuing use that are largely independent of those from other assets or groups of assets and is therefore tested for impairment as part of the cash-generating unit to which it belongs, the assets and liabilities making up that unit have not changed significantly since the most recent recoverable amount calculation;
  b) the most recent recoverable amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
  c) based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the asset's carrying amount is remote.

5.3 GOODWILL :

1. CGUs to which goodwill has been allocated :

A cash-generating unit to which goodwill has been allocated is tested for impairment both:

a) annually, and

b) whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity recognises an impairment loss in accordance with the requirement of this standard.

2. <u>Timing of impairment tests :</u>

- The annual impairment test for a cash-generating unit to which goodwill has been allocated may be performed at any time during an annual period, provided the test is performed at the same time every year. Different cash-generating units may be tested for impairment at different times.
- However, if some or all of the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period.

3. <u>Individual assets to be tested before CGU to which goodwill has been allocated :</u>

- If the assets constituting the CGU to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment before the unit containing the goodwill.
- Similarly, if the CGUs constituting a group of CGUs to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.
- At the time of impairment testing a CGU to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing the goodwill. In such circumstances, the entity tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill.
- Similarly, there may be an indication of an impairment of a cash-generating unit within a group of units containing the goodwill. In such circumstances, the entity tests the cash-generating unit for impairment first, and recognises any impairment loss for that unit, before testing for impairment the group of units to which the goodwill is allocated.

4. <u>CGUs to which it has not been possible to allocate goodwill :</u>

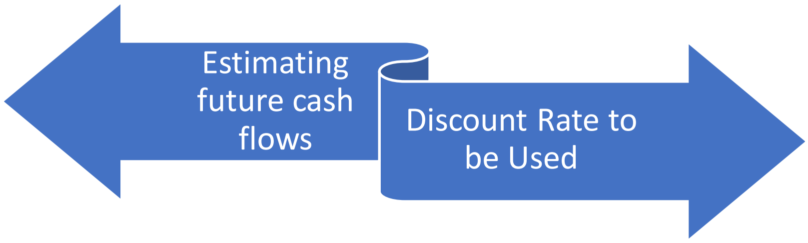
- When goodwill relates to a CGU but has not been allocated to that unit, the unit shall be tested for impairment, whenever there is an indication that the unit may be impaired, by comparing the unit's carrying amount, excluding any goodwill, with its recoverable amount. Any impairment loss is recognised in accordance with the requirement of this standard.
- If a CGU as described above includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use and that

asset can be tested for impairment only as part of the CGU, the unit also to be tested for impairment annually.

6. VALUE IN USE :

Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Primarily two key decisions are involved in determining value in use:



Estimation of expected future cash flows :

The following elements shall be reflected in the calculation of an asset's value in use:

a) an estimate of the future cash flows the entity expects to derive from the asset;

b) expectations about possible variations in the amount or timing of those future cash flows;

c) the time value of money, represented by the current market risk-free rate of interest;

d) the price for bearing the uncertainty inherent in the asset; and

e) other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Estimating the value in use of an asset involves the following steps:

a) estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and

b) applying the appropriate discount rate to those future cash flows.

When estimating expected future cash flows, the following rules apply :

a) Projections of cash flows shall be based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence.

a) Management assesses the reasonableness of the assumptions on which its current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. Management shall ensure that the assumptions on which its current cash flow projections are based are consistent with past actual outcomes, provided the effects of subsequent events or circumstances that did not exist when those actual cash flows were generated make this appropriate.

b) Base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.

c) Detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period.

d) Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

e) Cash flow projections until the end of an asset's useful life are estimated by extrapolating the cash flow projections based on the financial budgets/forecasts using a growth rate for subsequent years. This rate is steady or declining, unless an increase in the rate matches objective information about patterns over a product or industry lifecycle. If appropriate, the growth rate is zero or negative.

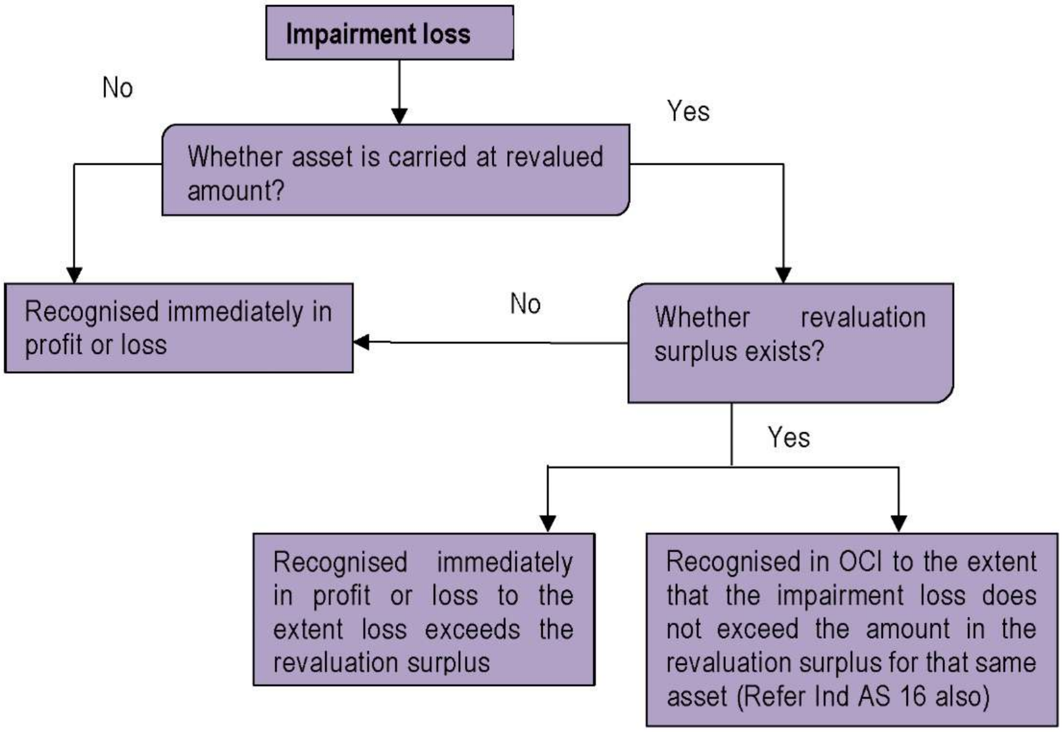
f) Estimates of future cash flows and the discount rate reflect consistent assumptions about price increases attributable to general inflation. Therefore, if the discount rate includes the effect of price increases attributable to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases attributable to general inflation, future cash flows are estimated in real terms (but include future specific price increases or decreases).

Question 5 – Saturn Ltd.

Saturn India Ltd is reviewing one of its business segments for impairment. The carrying value of its net assets is 40 million. Management has produced two computations for the value-in-use of the business segment. The first value of Rs. 36 million excludes the benefit to be derived from a future reorganization, but the second value of Rs. 44 million includes the benefits to be derived from the future reorganization. There is not an active market for the sale of the business segments.

Whether the business segment needs to be Impaired?

7. RECOGNISING IMPAIRMENT LOSS :



Question 6 –

From the following details of an asset, find out:

(a) Impairment loss and its treatment.

(b) Current year depreciation for the year end.

Particulars of assets:

Cost of Asset	Rs 56 lakhs
Usefull Life	10 years
Salvage Value	Nil
Carrying Value at the beginning of the year	Rs 27.30 lakhs
Remaining useful life	3 years
Recoverable amount at the beginning of the year	12 lakhs
Upward revaluation done in last year	14 lakhs

Question 7 – NDA Ltd.

NDA Ltd. acquired plant on 01.04.2008 for Rs.50.00 lakhs having 10 years useful life and provides depreciation on SLM with nil residual value. On 01.04.2013. NDA Ltd revalued the plant at Rs.29 lakhs against its book value of Rs.25 lakhs and credited Rs.4 lakhs to revaluation reserve.

On 31.03.2015 the plant was impaired and its recoverable amount on this date was Rs.14 lakhs. Calculate the Impairment loss and how this loss should be treated in the accounts.

Question 8 – G Ltd.

G Ltd., acquired a machine on 1st April, 2010 for Rs.7 crore that had an estimated useful life of 7 years. The machine is depreciated on straight line basis and does not carry any residual value. On 1st April, 2014, the carrying value of the machine was reassessed at Rs.5.10 crore and the surplus arising out of the revaluation being credited to revaluation reserve. For the year ended March, 2016, conditions indicating an impairment of the machine existed and the amount recoverable ascertained to be only Rs.79 lakhs. You are required to calculate the loss on impairment of the machine and show how this loss is to be treated in the books of G Ltd. G Ltd., had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

Question 9 – X Ltd.

X Ltd. purchased a Property, Plant and Equipment four years ago for Rs.150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year, it has revalued the asset at Rs.75 lakhs and has written off the loss on revaluation to the profit and loss account. However, on the date of revaluation, the market price is Rs.67.50 lakhs and expected disposal costs are Rs.3 lakhs. What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at Rs.60 lakhs?

Question 10 –

From the following details of an asset, find out:

(a) Impairment loss and its treatment.

(b) Current year depreciation for the year end.

Particulars of assets:

Cost of Asset	Rs 56 lakhs
Usefull Life	10 years
Salvage Value	Nil
Carrying Value at the beginning of the year	Rs 27.30 lakhs
Remaining useful life	3 years
Recoverable amount at the beginning of the year	12 lakhs
Upward revaluation done in last year	14 lakhs

8. CASH GENERATING UNIT :

- A ***cash-generating unit*** is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
- If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount

of the individual asset, an entity is required to determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

- The recoverable amount of an individual asset cannot be determined if:
- the asset's value in use cannot be estimated to be close to its fair value less costs of disposal (for example, when the future cash flows from continuing use of the asset cannot be estimated to be negligible); and
- the asset does not generate cash inflows that are largely independent of those from other assets.
- In such cases, value in use and, therefore, recoverable amount, can be determined only for the asset's cash-generating unit.
- If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

Question 11 – A publisher

A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them immediately with new titles for the same customer segment. What is the cash-generating unit for an individual magazine title?

Question 12 – A mining entity

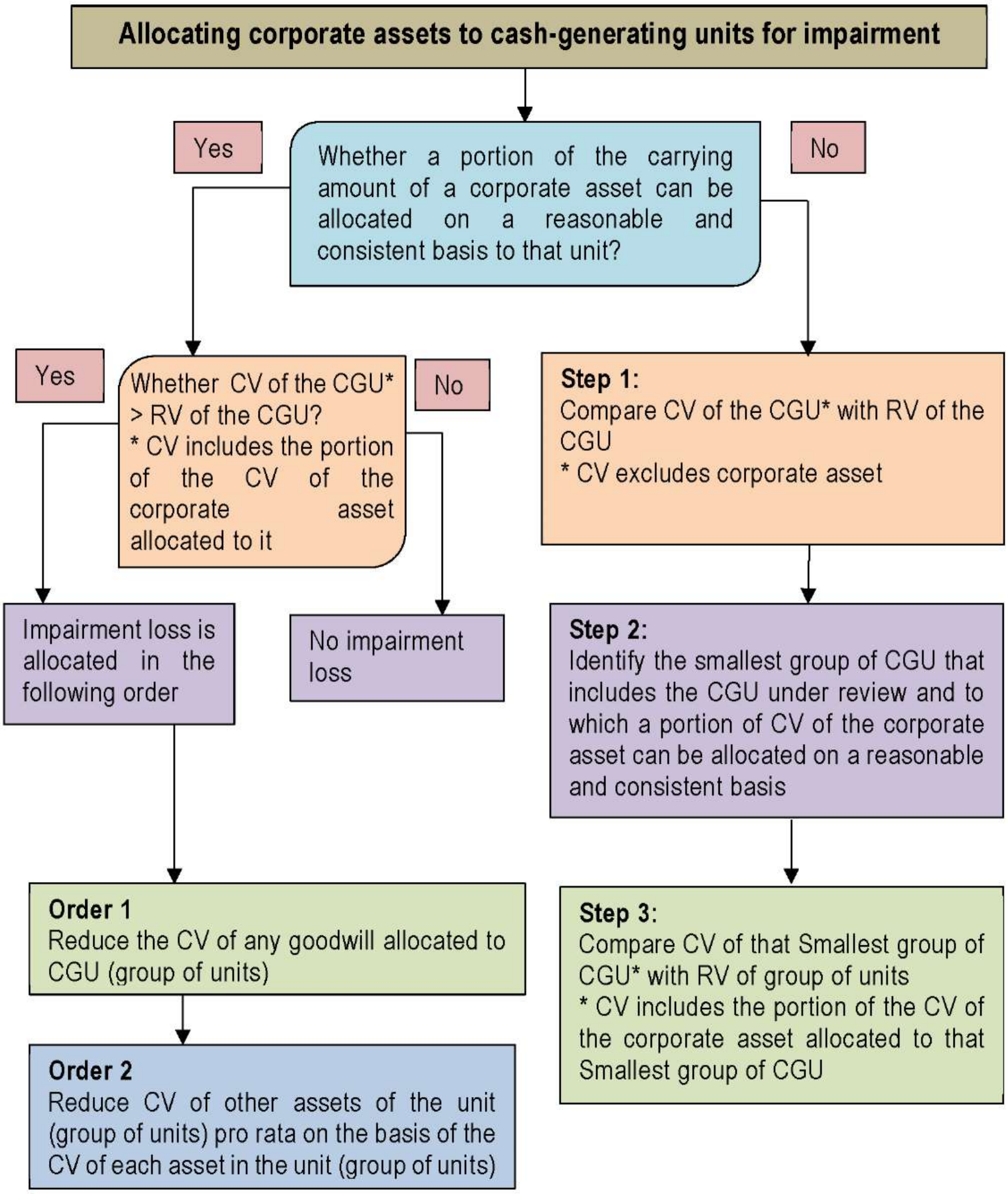
A mining entity owns a private railway to support its mining activities. The private railway could be sold only for scrap value and it does not generate cash inflows that are largely independent of the cash inflows from the other assets of the mine. Should the entity determine the recoverable amount for the private railway or for the mining business as a whole?

Question 13 – In north campus

In north campus there are ten college under Delhi University having their own canteens, which provides food and beverage to be students and staff. Under a policy of the University the contract of running all the ten college canteens will be given to only one contractor. Out of these 7 canteens are profitable but 3 are loss making. Identify cash generating units.

9. GOODWILL :

Goodwill does not generate cash flows independently from other assets or groups of assets and, therefore, the recoverable amount of goodwill as an individual asset cannot be determined. As a consequence, if there is an indication that goodwill may be impaired, recoverable amount is determined for the cash-generating unit to which goodwill belongs. This amount is then compared to the carrying amount of this cash-generating unit and any impairment loss is recognized. If goodwill can be allocated on a reasonable and consistent basis, an enterprise applies the 'bottom-up' test only. If it is not possible to allocate goodwill on a reasonable and consistent basis, an enterprise applies both the 'bottom-up' test and 'top-down' test



Question 14 – Entity A acquires Entity B

Entity A acquires Entity B for Rs. 50 million, of which Rs. 35 million is the fair value of the identifiable assets acquired and liabilities assumed. The acquisition of B Ltd. is to be integrated into two

Rs. in million

	CGU 1	CGU 2	Total

Fair value of acquired identifiable tangible and intangible assets	25	10	35

In addition to the net assets acquired that are assigned to CGU 2, the acquiring entity expects CGU 2 to benefit from certain synergies related to the acquisition (e.g. CGU 2 is expected to realise higher sales of its products because of access to the acquired entity's distribution channels). There is no synergistic goodwill attributable to other CGUs.

Entity A allocated the purchase consideration of the acquired business to CGU 1 and CGU 2 as Rs. 33 million and Rs. 17 million respectively.

Determine the allocation of goodwill to each CGU?

Question 15 – Earth Infra Ltd.

Earth Infra Ltd has two cash-generating units, A and B. There is no goodwill within the units' carrying values. The carrying values of the CGUs are CGU A for Rs. 20 million and CGU B for Rs. 30 million. The company has an office building which it is using as an office headquarter and has not been included in the above values and can be allocated to the units on the basis of their carrying values. The office building has a carrying value of Rs. 10 million. The recoverable amounts are based on value-in-use of Rs. 18 million for CGU A and Rs. 38 million for CGU B.

Determine whether the carrying values of CGU A and B are impaired.

Question 16 – A Ltd.

A Ltd. has 3 CGU with the fair value of Assets of these units in the ratio of 3 : 2 : 1 for unit A, B and C respectively.

B Ltd. acquired all the three cash generating units of A Ltd. at a price of Rs.2,500 lacs and recognised a goodwill of Rs.600 lacs at the time of acquisition. After a few years, it is found that unit A is incurring losses and the recoverable amount of unit A is 750 lacs. Presently the carrying amount of these units are Rs.725 lacs, Rs.500 lacs and Rs.220 lacs. The goodwill is appearing at Rs.420 lacs in the financial statements. Find the impairment loss to be recognised for CGU A, if

A. Goodwill can be allocated to cash generating units on a reasonable basis, and

B. Goodwill cannot be allocated to cash generating units and the recoverable amount of the three units taken together is

 () Rs. 1700 or

 (ii) Rs. 1400

Question 17 –

A cash generating unit has these net assets

	Rs in million
Goodwill	10
Property	20

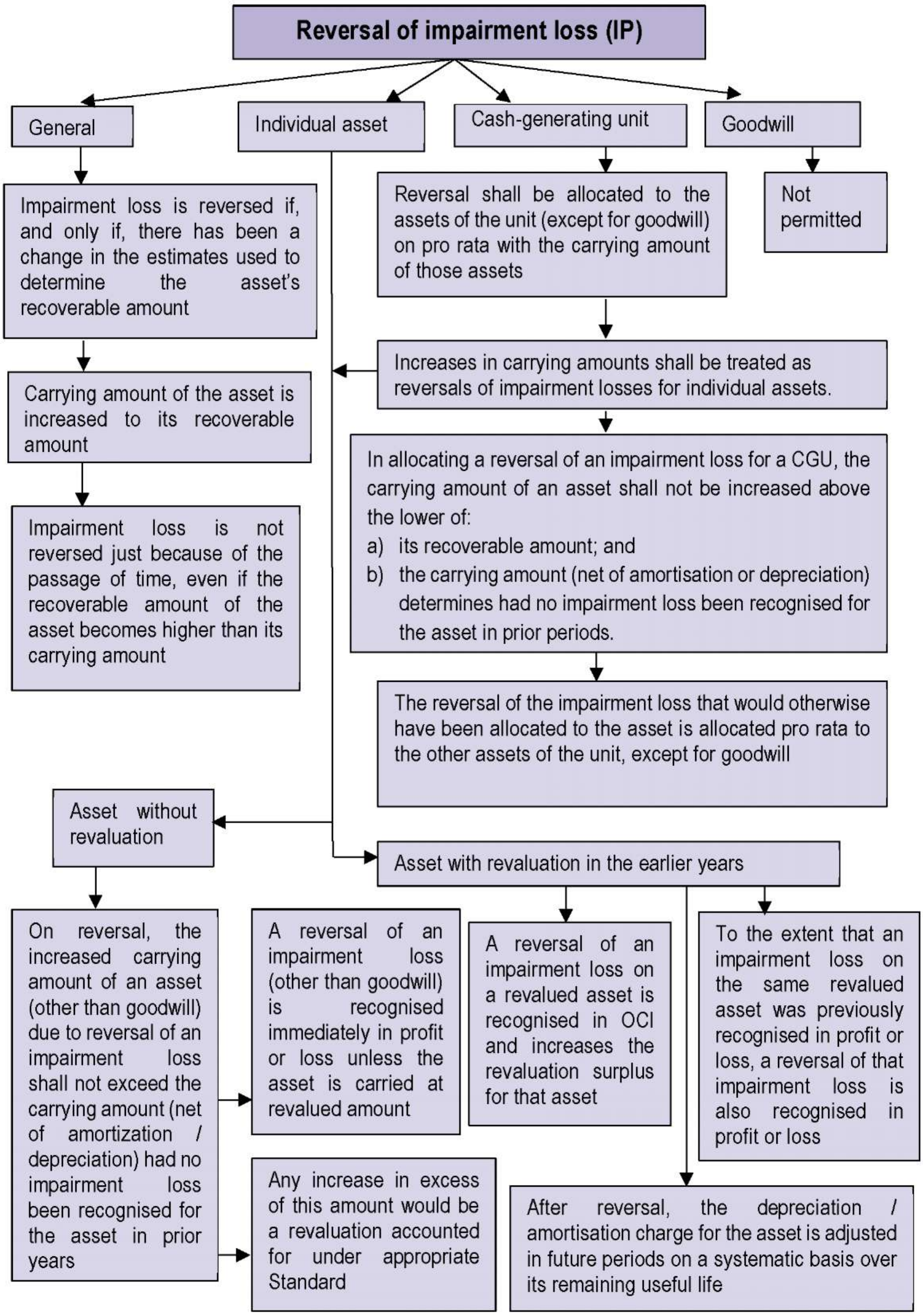
Plant and Equipment	30
Total	**60**

The recoverable Amount has been determined at Rs.45 million.

Required :

Allocate the impairment loss to net assets of the entity.

10. REVERSAL OF IMPAIRMENT LOSS :



Question 18 – Venus Ltd.

On 1st April 20X1, Venus Ltd acquired 100% of Saturn Ltd for Rs. 4,00,000. The fair value of the net identifiable assets of Saturn Ltd was Rs. 3,20,000 and goodwill was Rs. 80,000. Saturn Ltd is in coal mining business. On 31st March, 20X3, the government has cancelled licenses given to it in few states.

As a result Saturn's Ltd revenue is estimated to get reduce by 30%. The adverse change in market place and regulatory conditions is an indicator of impairment. As a result, Venus Ltd has to estimate the recoverable amount of goodwill and net assets of Saturn Ltd on 31st March, 20X3.

Venus Ltd uses straight line depreciation. The useful life of Saturn's Ltd assets is estimated to be 20 years with no residual value. No independent cash inflows can be identified to any individual assets. So, the entire operation of Saturn Ltd is to be treated as a CGU. Due to the regulatory entangle it is not possible to determine the selling price of Saturn Ltd as a CGU. Its value in use is estimated by the management at Rs. 2,12,000.

Suppose by 31st March, 20X5 the government reinstates the licenses of Saturn Ltd. The management expects a favourable change in net cash flows. This is an indicator that an impairment loss may have reversed. The recoverable amount of Saturn's Ltd net asset is reestimated. The value in use is expected to be Rs. 3,04,000 and fair value less cost to disposal is expected to be Rs. 2,90,000.

Calculate the impairment loss, if any. Also show the accounting treatment for reversal of impairment loss and the subsequent depreciation thereon.

11. SELF PRACTICE QUESTIONS :

Question 19 –

From the following details of an asset, find out:

(a) Impairment loss and its treatment.

(b) Current year depreciation for the year end.

Particulars of assets:

Cost of asset	Rs. 56 lakh
Useful life	10 years
Salvage value	Nil
Carrying value at the beginning of the year	Rs. 27.30 lakh
Remaining useful life	3 years
Recoverable amount at the beginning of the year	Rs. 12 lakh
Upward revaluation done in last year	Rs. 14 lakh

Question 20 – Venus Ltd.

Venus Ltd. has an asset, which is carried in the Balance Sheet on 31st March, 20X1 at Rs. 500 lakh. As at that date the value in use is Rs. 400 lakh and the fair value less costs to sells is Rs. 375 lakh.

From the above data:

(a) Calculate impairment loss.

(b) Prepare journal entries for adjustment of impairment loss.

Question 21 – A significant raw

A significant raw material used for plant Y's final production is an intermediate product bought from plant X of the same entity. X's products are sold to Y at a transfer price that passes all margins to X. 80% of Y's final production is sold to customers outside of the entity.

60% of X's final production is sold to Y and the remaining 40% is sold to customers outside of the entity. For each of the following cases, what are the cash-generating units for X and Y?

(a) If X could sell the products it sells to Y in an active market and internal transfer prices are higher than market prices, what are the cash-generating units for X and Y?

(b) If there is no active market for the products X sells to Y, what are the cash-generating units for X and Y?

Question 22 – XYZ Limited

XYZ Limited produces a single product and owns plants 1, 2 and 3. Each plant is located in a different country. Plant 1 produces a component that is assembled in either Plant 2 or Plant 3. The combined capacity of Plant 2 and Plant 3 is not fully utilised. XYZ Limited's products are sold worldwide from either Plant 2 or Plant 3, e.g., Plant 2's production can be sold in Plant 3's country if the products can be delivered faster from Plant 2 than from Plant 3. Utilisation levels of Plant 2 and Plant 3 depend on the allocation of sales between the two sites. If there is no active market for Plant 1's products, what are the cash-generating units for Plant 1, Plant 2 and Plant 3?

Question 23 – XYZ Limited

XYZ Limited has a cash-generating unit 'Plant A' as on 1st April, 20X1 having a carrying amount of Rs. 1,000 crore. Plant A was acquired under a business combination and goodwill of Rs. 200 crore was allocated to it. It is depreciated on straight line basis. Plant A has a useful life of 10 years with no residual value. On 31st March, 20X2, Plant A has a recoverable amount of Rs. 600 crore. Calculate the impairment loss on Plant A. Also, prescribe its allocation as per Ind AS 36.

Question 24 – Apex Ltd.

Apex Ltd. is engaged in manufacturing of steel utensils. It owns a building for its headquarters. The building used to be fully occupied for internal use. However, recently the company has undertaken a massive downsizing exercise as a result of which 1/3rd of the building became vacant. This vacant portion has now been given for on lease for 6 years. Determine the CGU of the building.

Question 25 – ABC Ltd.

ABC Ltd. has three cash-generating units: A, B and C, the carrying amounts of which as on 31st March, 20X1 are as follows:

(Rs. in crore)

Cash-generating units	Carrying amount	Remaining useful life
A	500	10
B	750	20
C	1,100	20

ABC Ltd. also has two corporate assets having a remaining useful life of 20 years

(Rs. in crore)

Corporate asset	Carrying amount	Remarks
X	600	The carrying amount of X can be allocated on a reasonable basis (i.e., pro rata basis) to the individual cash-generating units.
Y	200	The carrying amount of Y cannot be allocated on a reasonable basis to the individual cash generating units.

Recoverable amount as on 31st March, 20X1 is as follows:

Cash-generating units	Recoverable amount (Rs. in crore)
A	600

B	900
C	1,400
ABC Ltd.	3,200

Calculate the impairment loss, if any. Ignore decimals.

Question 26 – A Ltd.

A Ltd. purchased a machinery of Rs. 100 crore on 1st April, 20X1. The machinery has a useful life of 5 years. It has nil residual value. A Ltd. adopts straight line method of depreciation for depreciating the machinery. Following information has been provided as on 31st March, 20X2 :

Financial year	Estimated future cash flows (Rs. in crore)
20X2-20X3	15
20X3-20X4	30
20X4-20X5	40
20X5-20X6	10

Discount rate applicable : 10%

Fair value less costs to sell as on 31st March, 20X2 : Rs. 70 crore

Calculate the impairment loss, if any.

Question 27 –

Assuming in the above question, as on 31st March, 20X3, there is no change in the estimated future cash flows and discount rate. Fair value less costs to sell as on 31st March, 20X3 is Rs. 40 crore. How should it be dealt with under Ind AS 36?

Question 28 – A Ltd.

A Ltd. purchased an asset of Rs. 100 lakh on 1st April, 20X0. It has useful life of 4 years with no residual value. Recoverable amount of the asset is as follows:

As on	Recoverable amount
31st March, 20X1	Rs. 60 lakh
31st March, 20X2	Rs. 40 lakh
31st March, 20X3	Rs. 28 lakh

Calculate the amount of impairment loss or its reversal, if any, on 31st March, 20X1, 31st March, 20X2 and 31st March, 20X3.

Question 29 – A Ltd.

On 1 January Year 1, Entity Q purchased a machine costing Rs. 2,40,000 with an estimated useful life of 20 years and an estimated zero residual value. Depreciation is computed on straight-line basis. The asset had been re-valued on 1 January Year 3 to Rs. 2,50,000, but with no change in useful life at that date. On 1 January Year 4 an impairment review showed the machine's recoverable amount to be Rs. 1,00,000 and its estimated remaining useful life to be 10 years.

Calculate:

a) The carrying amount of the machine on 31 December Year 2 and the revaluation surplus arising on 1 January Year 3.

b) The carrying amount of the machine on 31 December Year 3 (immediately before the impairment).

c) The impairment loss recognised in the year to 31 December Year 4 and its treatment thereon

d) The depreciation charge in the year to 31 December Year 4.

Note: During the course of utilization of machine, the company did not opt to transfer part of the revaluation surplus to retained earnings.

Thanks ....

Rahul Malkan