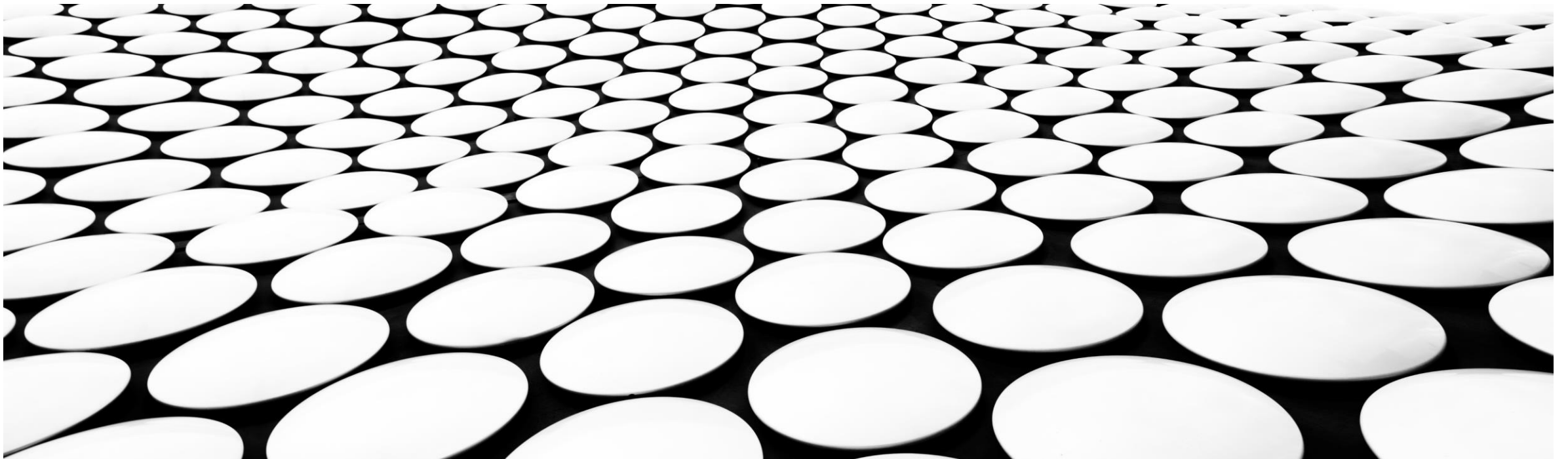


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# **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

## **IMPAIRMENT OF ASSETS – IAS 36**

**B D CHATTERJEE FCA, ACMA, ACS, DIP IFR (ACCA) – UNITED KINGDOM**





# **INTERNATIONAL FINANCIAL REPORTING STANDARDS IMPAIRMENT OF ASSETS - IAS 36**

# IMPAIRMENT OF ASSETS – IAS 36



IMPAIRMENT  
OF ASSETS –  
IAS 36

- What is impairment of assets
- Recoverable amount of an asset and impairment losses
- Circumstances indicating impairment
- Cash generating unit
- Allocation of impairment losses of a cash generating unit
- Decision tree related to impairment

# IMPAIRMENT OF ASSETS – IAS 36

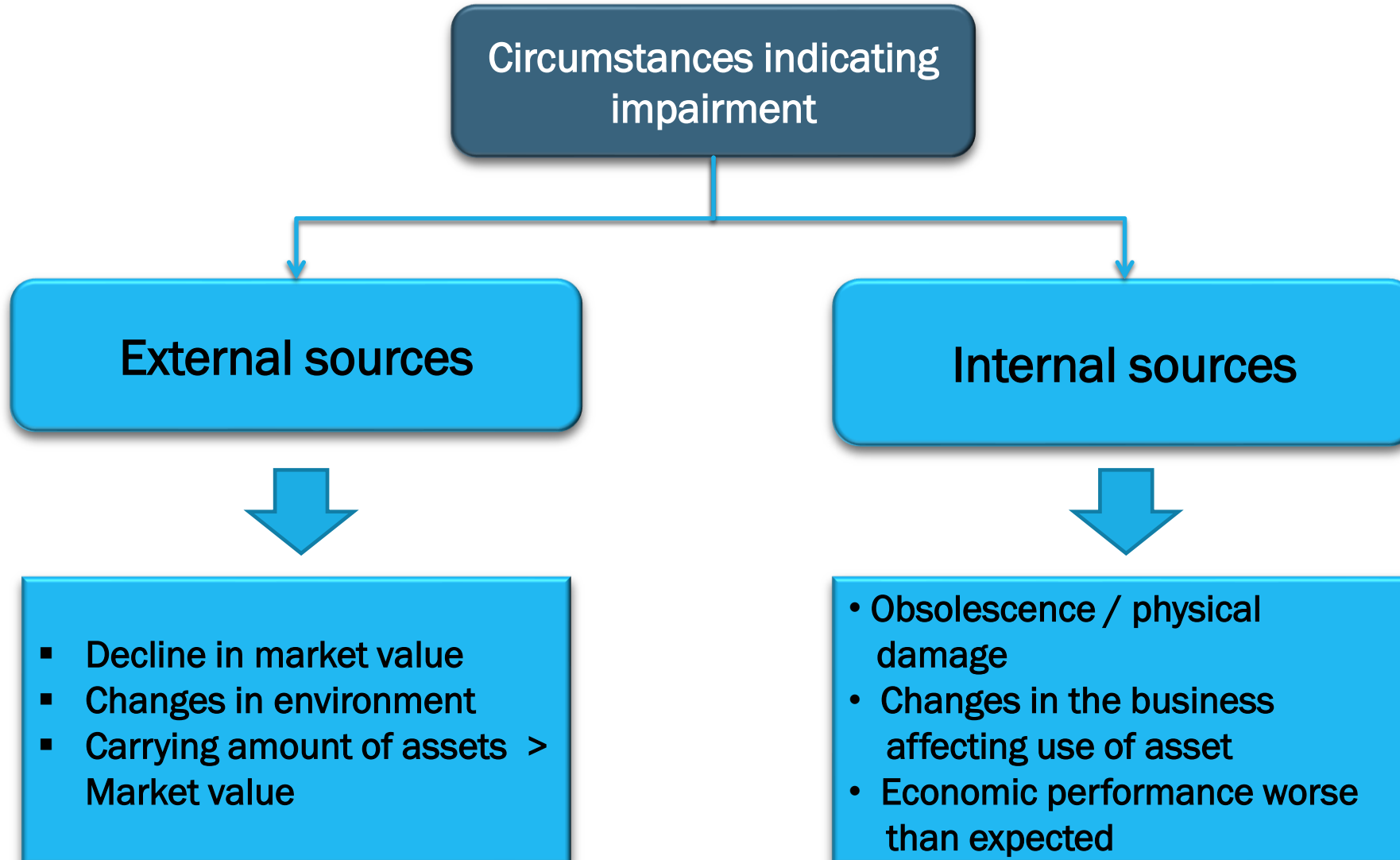
## ***What is impairment :***

An impairment loss

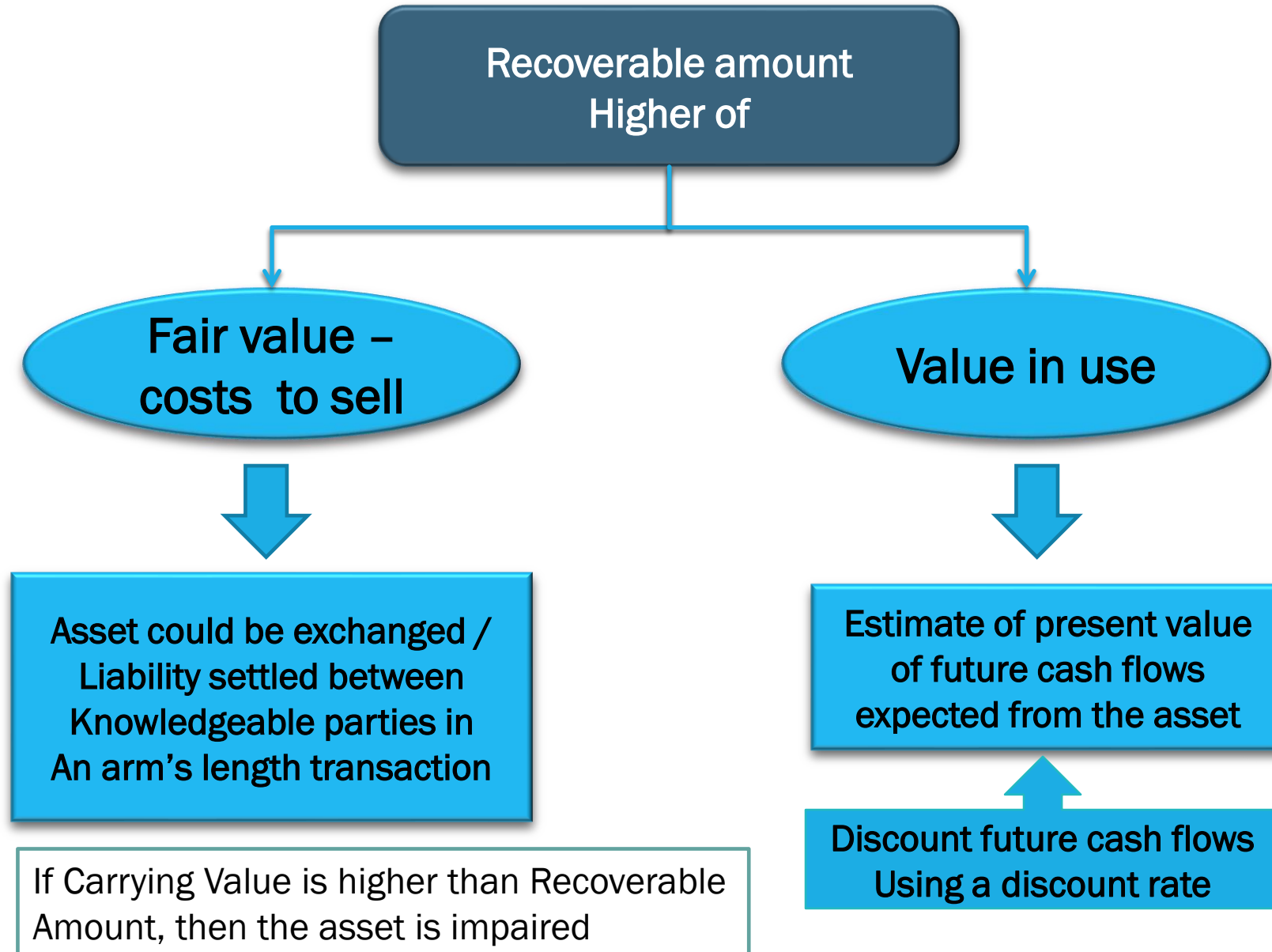
- is the amount by which the carrying amount of
- an asset or a cash generating unit exceeds
- its recoverable amount

IAS 36 Para 6

# IMPAIRMENT OF ASSETS – IAS 36



# IMPAIRMENT OF ASSETS – IAS 36



## Illustration 1

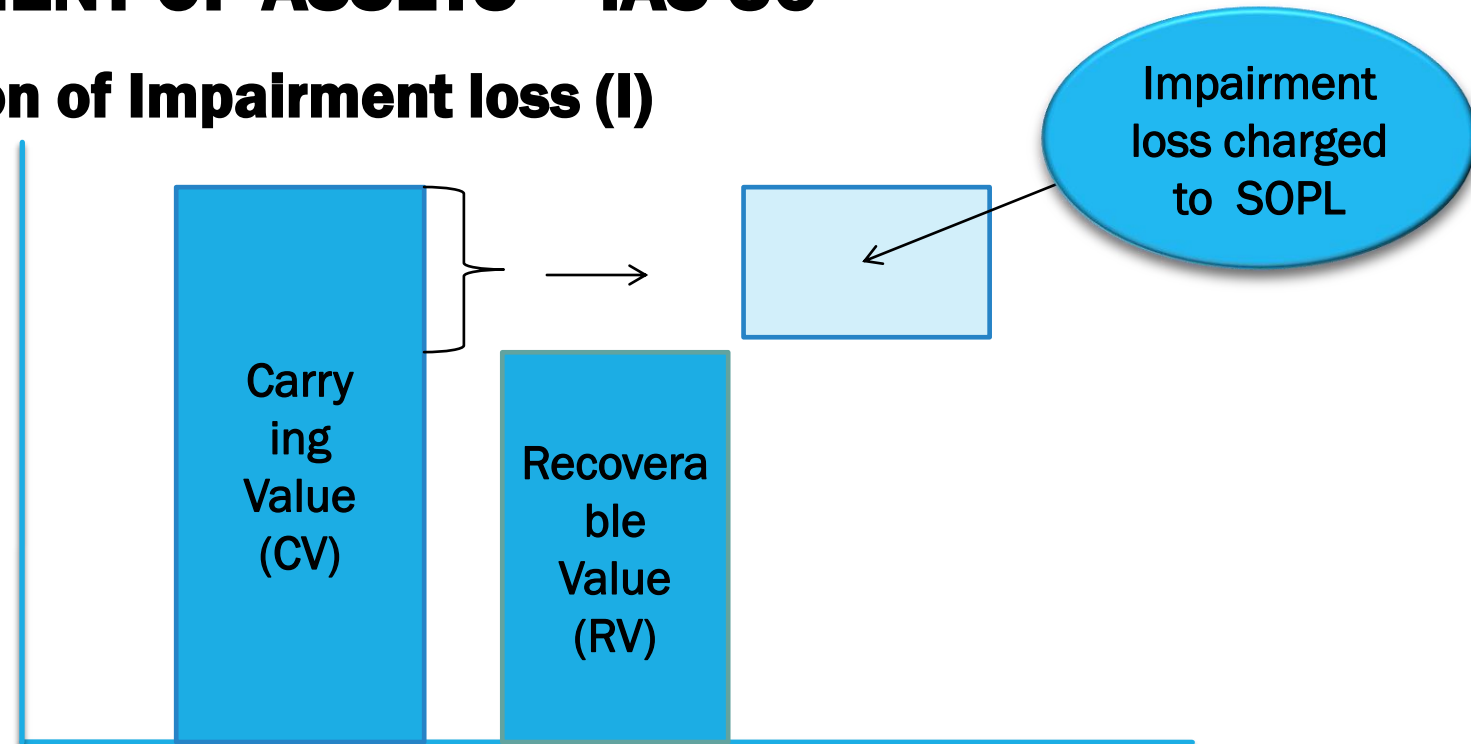
- A Ltd has a machine whose original cost was Rs.25000. The accumulated depreciation on the machine is Rs. 8500. A Ltd recently sold another similar machine at Rs.34000 and the selling expenses were Rs.2300. Management has determined the value in use of the machine as Rs.33000.  
Determine the recoverable amount of the machine.

## Solution

Fair value less cost to sale :	Rs.
Market value of the machine	34000
Less direct selling expenses	(2300)
	31700
Value in use (determined by management)	33000
<b>Recoverable amount</b>	<b>33000</b>

# IMPAIRMENT OF ASSETS – IAS 36

## Recognition of Impairment loss (I)



Carrying value > Recoverable value

Note: Here Carrying Value does not include any revaluation surplus



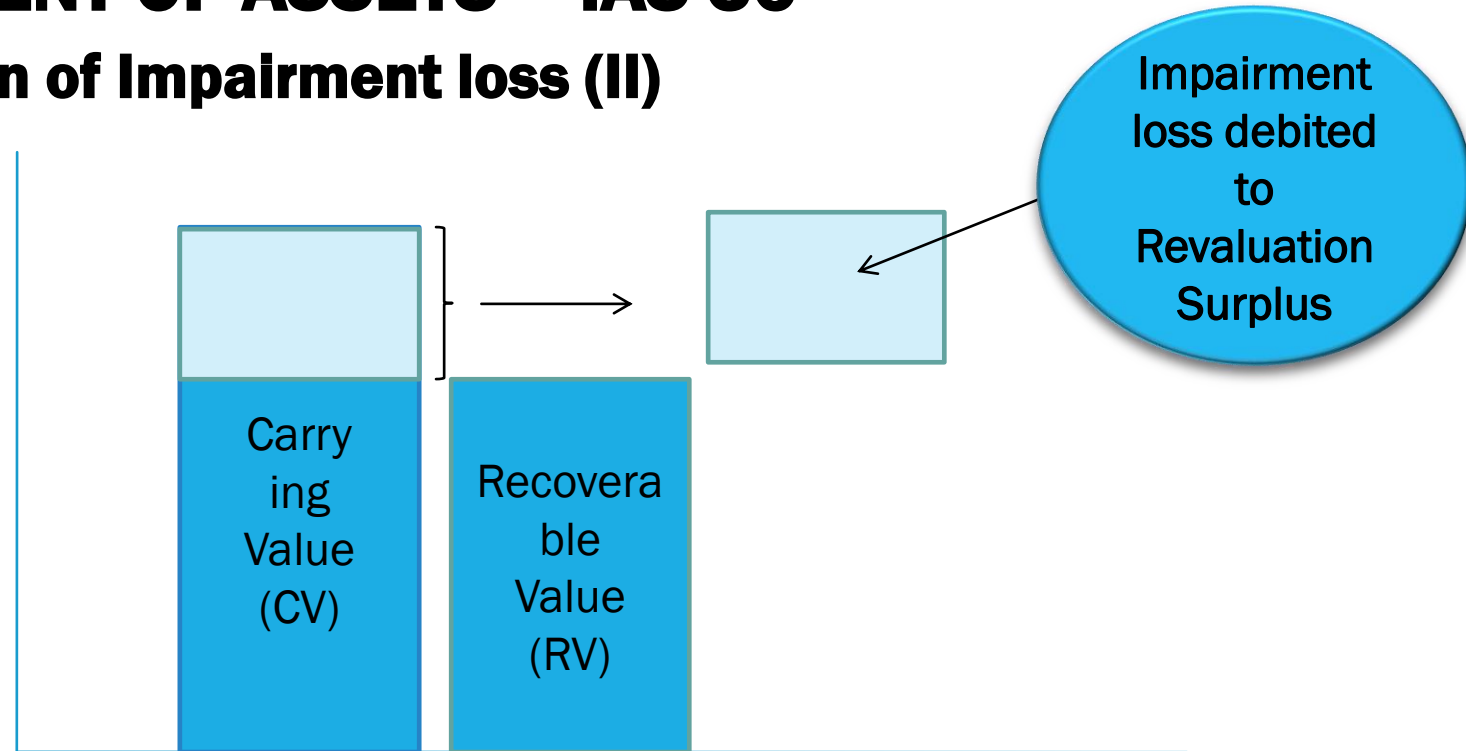
# IMPAIRMENT OF ASSETS – IAS 36

## Accounting treatment

If asset not revalued	Impairment loss is recognized Immediately in SOPL
Dr. Loss : Impairment of assets (SOPL)	X
Cr. Asset	X

# IMPAIRMENT OF ASSETS – IAS 36

## Recognition of Impairment loss (II)



Carrying value > Recoverable value

Note: Here Carrying Value includes  
Revaluation surplus

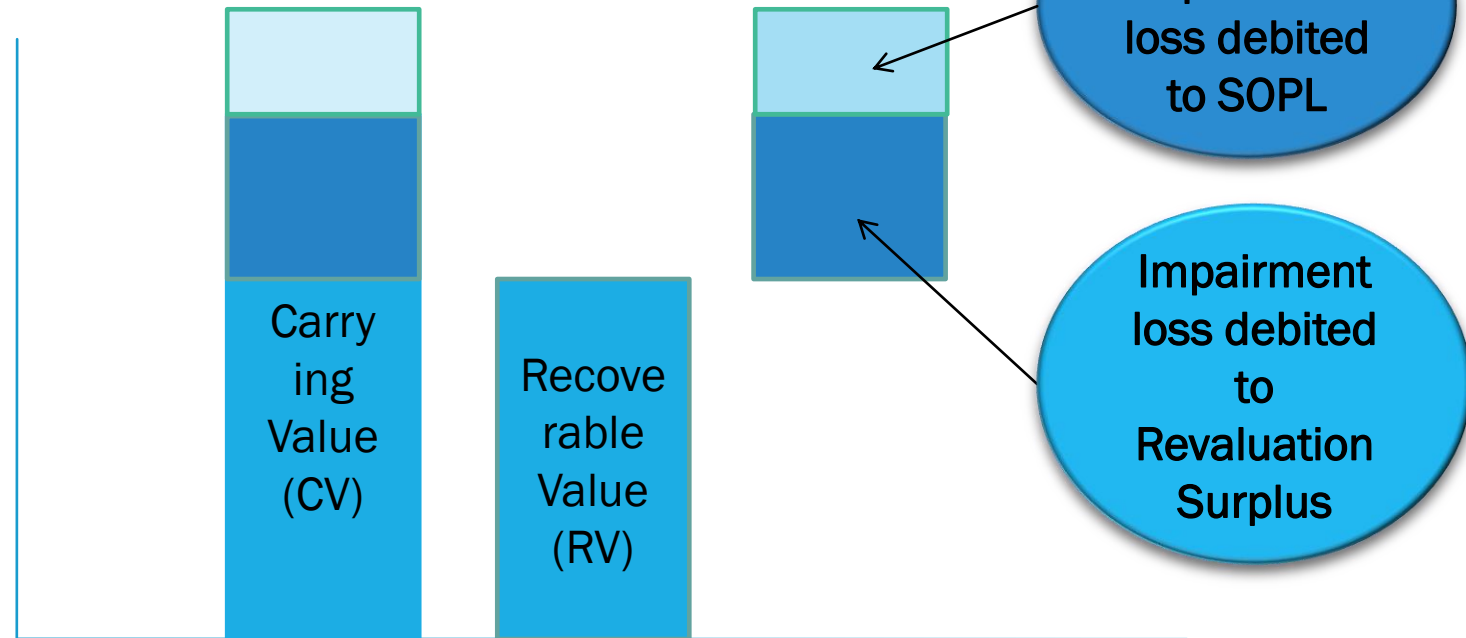
# IMPAIRMENT OF ASSETS – IAS 36

## Accounting treatment with revaluation reserve

If asset is revalued	Impairment loss is recognized Against revaluation surplus
Dr. Revaluation surplus	X
Cr. Asset	X

# IMPAIRMENT OF ASSETS – IAS 36

## Recognition of Impairment loss (III)



Carrying value > Recoverable value  
Note: Here Carrying Value includes  
Revaluation surplus

# IMPAIRMENT OF ASSETS – IAS 36

## Accounting treatment with Revaluation surplus

If Impairment loss > revaluation surplus	Difference is recognized in SOPL
Dr. Loss on Impairment of assets	X
Dr. Revaluation surplus	X
Cr. Asset	X

# IMPAIRMENT OF ASSETS – IAS 36

- *Definition of impairment :*

An impairment loss

- is the amount by which the carrying amount of
- an asset or a cash generating unit exceeds
- its recoverable amount

IAS 36 Para 6

- *What is a cash generating unit*

A Cash Generating Unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash Inflows from other assets or group of assets

## **Illustration 2**

A mining enterprise owns a private railway to support its mining activities. The private railway could be sold only for scrap value and the private railway does not generate cash inflows from continuing use that are largely independent of the cash inflows from the other assets of the mine.

### **Solution**

*It is not possible to estimate the recoverable amount of the private railway because the value in use of the private railway cannot be determined and it is probably different from scrap value.*

*Therefore,*

*the enterprise estimates the recoverable amount of the cash-generating unit to which the private railway belongs, that is, the mine as a whole.*

### **Illustration 3**

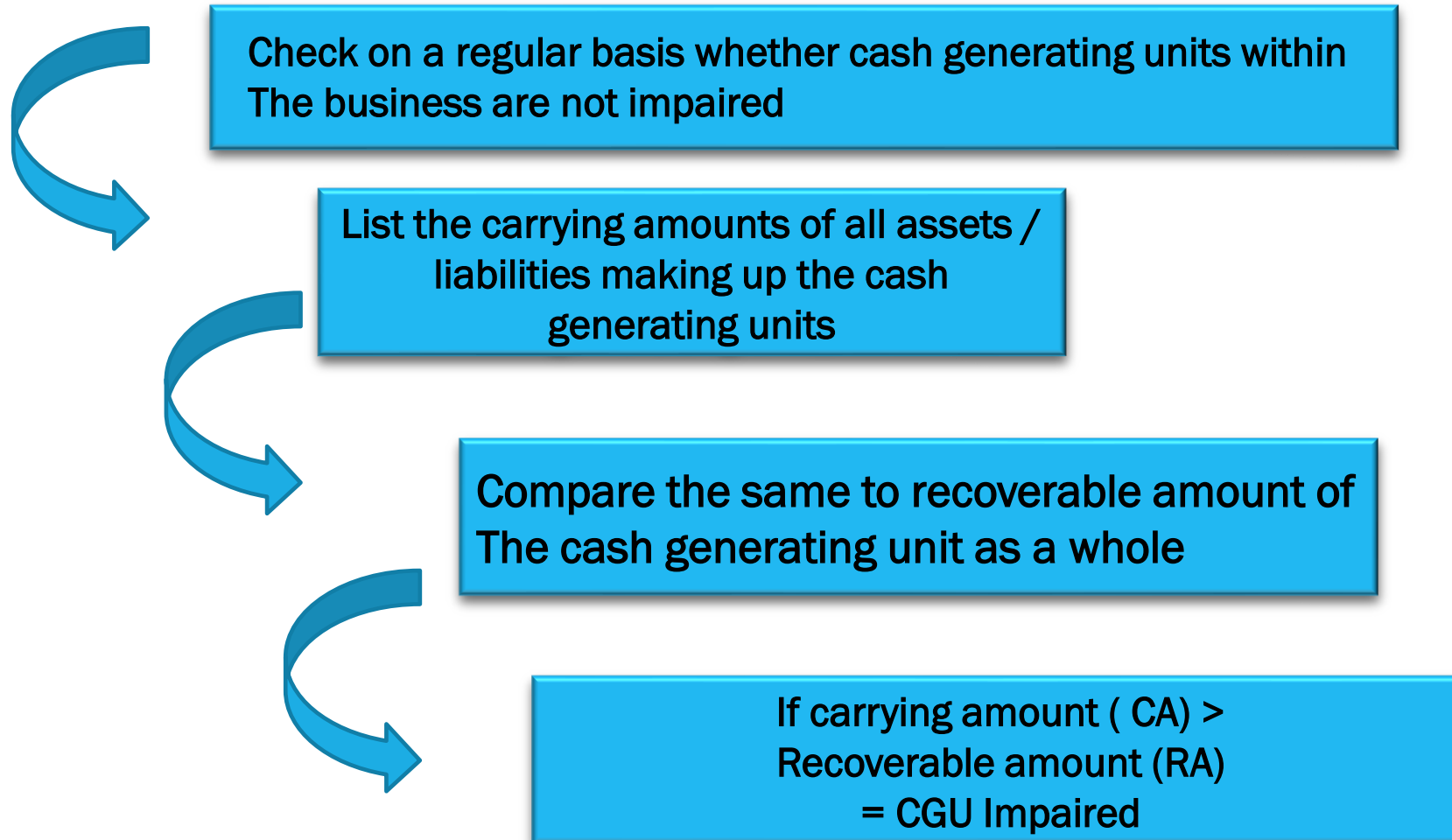
A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route and the cash flows from each route can be identified separately. One of the routes operates at a significant loss.

*Because the enterprise does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets is the cash inflows generated by the five routes together. The cash-generating unit for each route is the bus company as a whole.*



# IMPAIRMENT OF ASSETS – IAS 36

## Understanding impairment and CGUs :



## **Illustration 4**

A company operates a mine in a country where legislation requires that the owner must restore the site on completion of its mining operations. The cost of restoration includes the replacement of the overburden, which must be removed before mining operations commence. A provision for the costs to replace the overburden was recognised as soon as the overburden was removed. The amount provided was recognised as part of the cost of the mine and is being depreciated over the mine's useful life. The carrying amount of the provision for restoration costs is Rs.5,000,000, which is equal to the present value of the restoration costs.

The enterprise is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The enterprise has received various offers to buy the mine at a price of around Rs.8,000,000; this price encompasses the fact that the buyer will take over the obligation to restore the overburden.

Disposal costs for the mine are negligible.

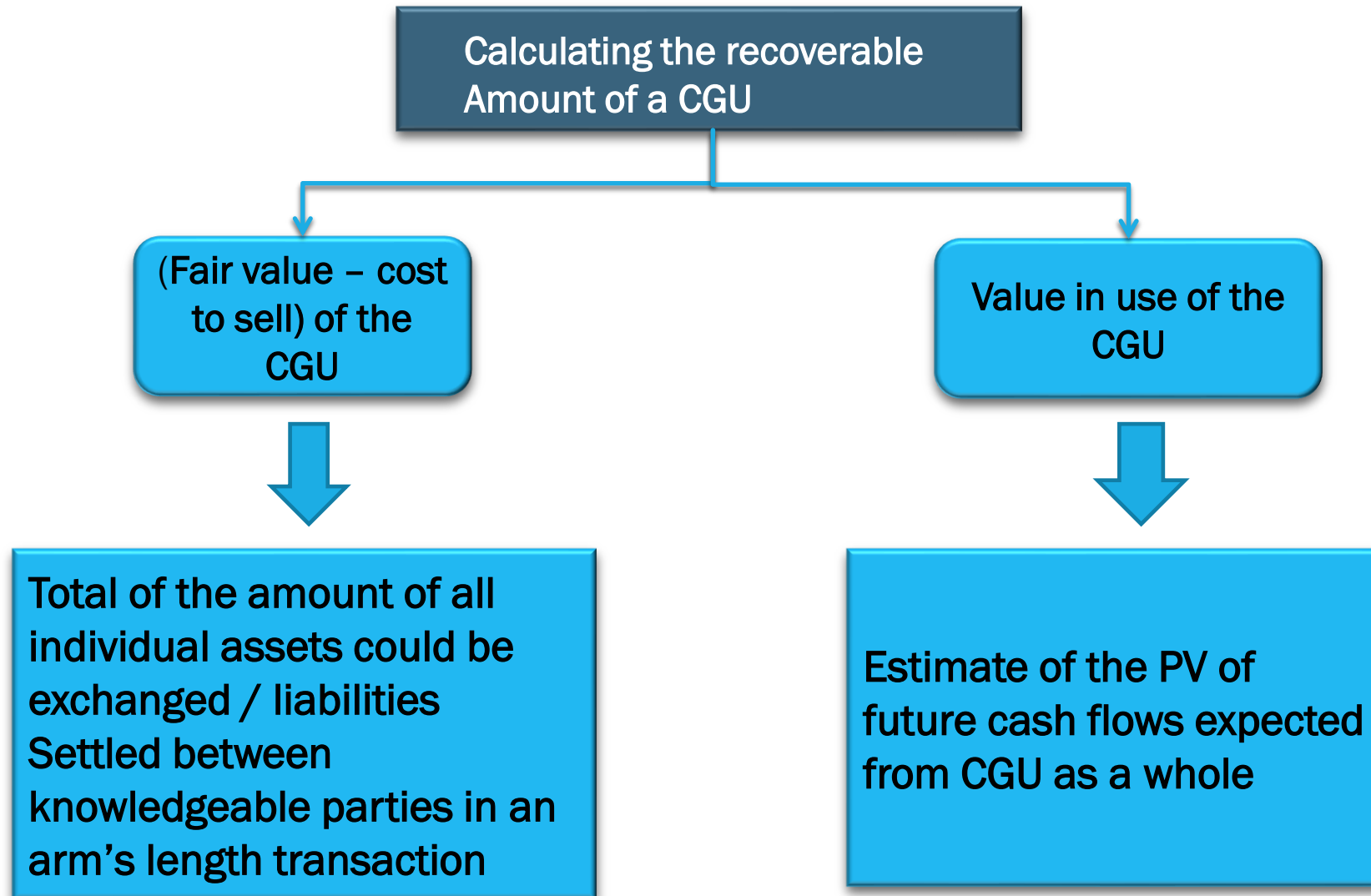
The value in use of the mine is approximately Rs. 12,000,000 excluding restoration costs. The carrying amount of the mine is Rs.10,000,000.

## **Solution**

The net selling price for the cash-generating unit is Rs. 8,000,000. This amount considers restoration costs that have already been provided for.

As a consequence, the value in use for the cash-generating unit is determined after consideration of the restoration costs and is to be Rs.7,000,000 (Rs. 12,000,000 less Rs.5,000,000). The carrying amount of the cash-generating unit is Rs.5,000,000, which is the carrying amount of the mine (Rs. 10,000,000) less the carrying amount of the provision for restoration costs (Rs. 5,000,000).

# IMPAIRMENT OF ASSETS – IAS 36



# IMPAIRMENT OF ASSETS – IAS 36

## Allocating an impairment loss to a CGU

If it is not practicable to estimate Recoverable amount of each individual asset



first

Reduce the carrying amount of any goodwill allocated to the cash generating unit (CGU)

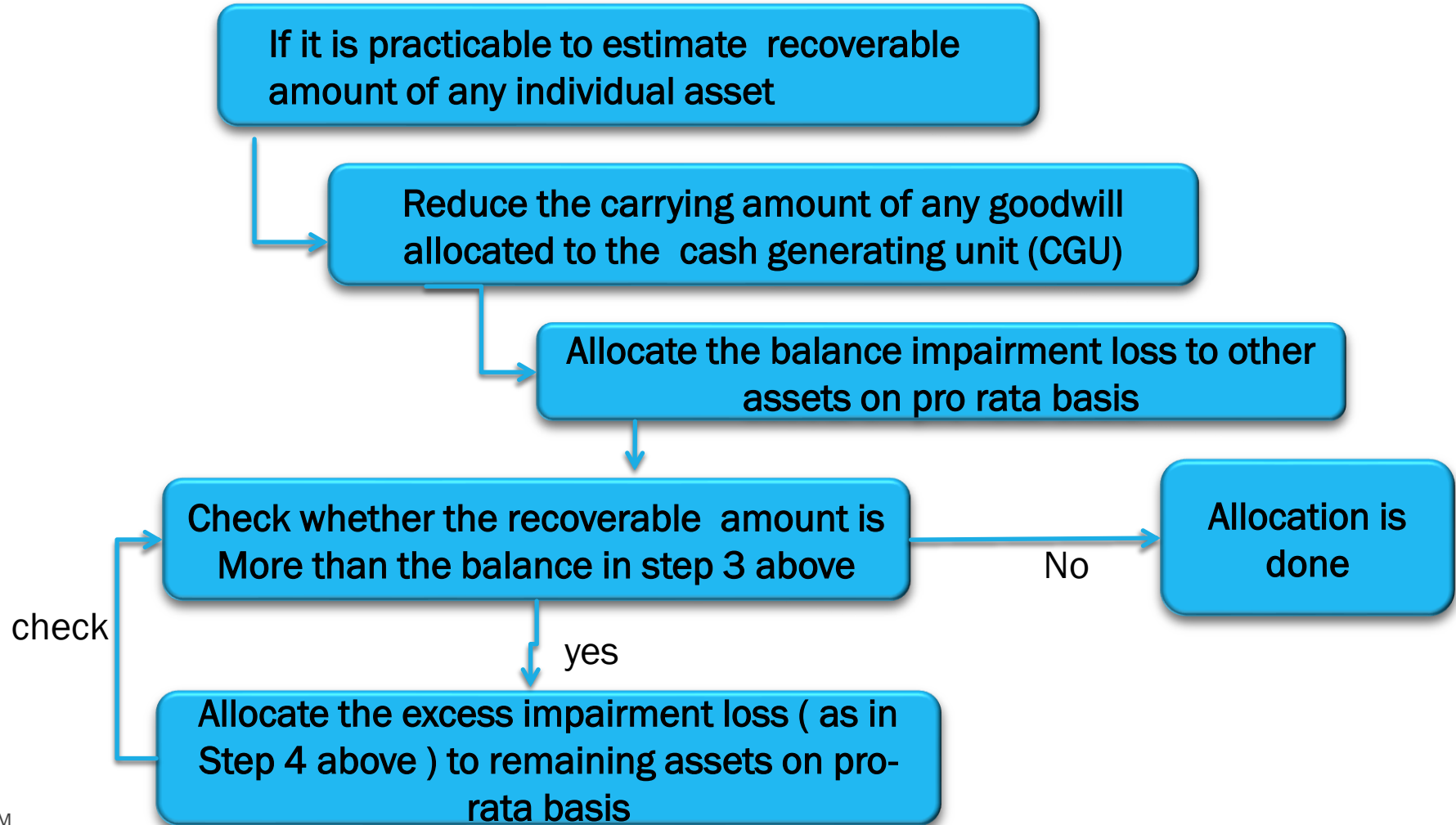


then

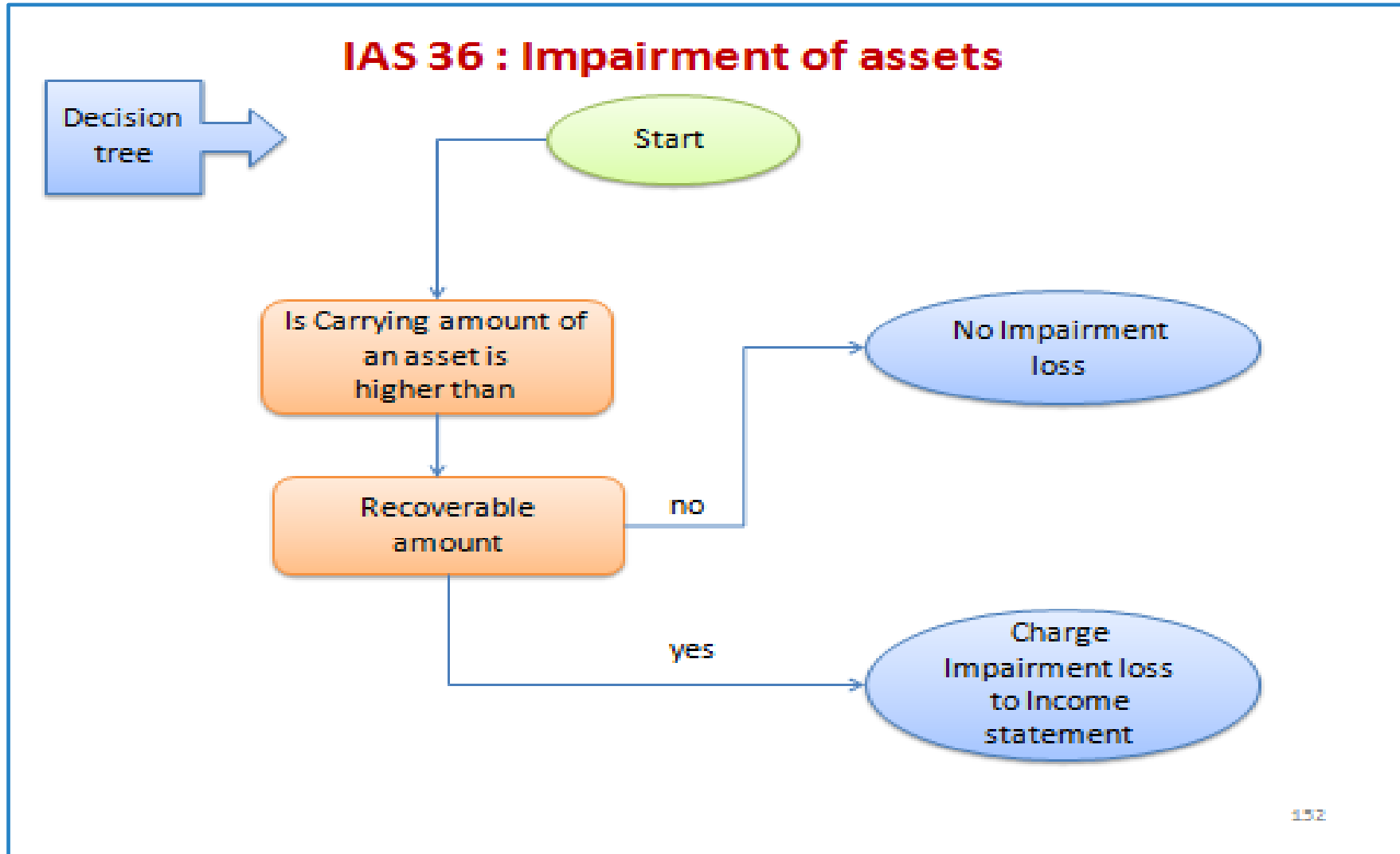
Allocate the balance impairment loss to other assets on pro rata basis

# IMPAIRMENT OF ASSETS – IAS 36

## Allocating an impairment loss to a CGU



# IMPAIRMENT OF ASSETS – IAS 36



# IMPAIRMENT OF ASSETS – IAS 36

Impairment of assets	Indian Accounting standards	IFRS / IAS	US GAAP
Timing of impairment review	Annual	Annual	Whenever events or changes in circumstances indicate that the carrying amount may not be recovered
Asset when impaired	Recoverable amount less than carrying amount	Recoverable amount less than carrying amount	Fair value less than carrying amount
Recoverable amount/ fair value	Recoverable amount is higher of net selling price and value in use	Recoverable amount is higher of net selling price and value in use	Fair value is the amount at which an asset or liability could be bought or settled in a current transaction between willing parties
Cash flows for calculating value in use / fair value	Use discounted cash flows for calculating the value in use	Use discounted cash flows for calculating the value in use	Use discounted cash flows for calculating fair value
Reversal of impairment loss	Whenever there is change in economic conditions	Whenever there is change in economic conditions	Prohibited





**THANK YOU!**