AS-28 (Impairment of Assets)

- This AS is Mandatory in nature for all entities. Though Partial exemption is available for SMC and level II/III entities.
- Partial Exemption: - Value in use is not required to be calculated rather it can be estimated.
- Impairment of Assets is not applicable on following:

  a. Stock AS-2

  b. Financial Assets AS-30

  c. Misc. Exp/ deferred revenue expenditure.

  d. DTA AS-22

  (AS-28 is applicable only on tangible and intangible assets.)

- Impairment of assets means reducing the value of assets due to reduction in its value.

  Im. Loss = Book value of Assets – Recoverable Amount. *(Im=Impairment)*
- Recoverable amount is higher of two:

  a. Net Selling Price.

  b. Value in Use.
- Net selling price means expected sales value of assets after reducing selling expenses.

  Net selling price = Expected S.P. – Expected selling Exp.

  Note:- NSP is evaluated as follows.

  * **Ist Preference** Current Price/ Agreement Price.
  * **IInd Preference** Price of Similar Assets in any recent transaction.
  * **IIIrd Preference** Management estimate.
  * **IVth Preference** Ignore NSP in RA if management cannot be made.
- Value in use presents value of expected cash flow from use of assets and its disposal value.

  Note:-
  - If cash flow are expected in forex then value will be calculated in foreign currency and its present value will be converted using closing exchange rate.
  - Discount rate to be used is pretax rate as per CAPM.
  - Cash flow should be considered for a period of 5 years only, unless Justified. (for exam purpose consider as per question.)

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- Cash flow includes all cash benefits from use of assets- Cash outflow for which management is committed.

- Book value of assets means book value after charging current depreciation and any revaluation as per AS-10.
- Accounting treatment.
  - Journal Entry

    Revalution reserve A/c Dr.

    Profit and loss A/c Dr.

    To Provision to Im.loss

    (Being Assets Impaired)
  - Amount of Im. Loss charged to PnL A/c is not allowed in Income tax act, hence become timing difference resulting in DTA.
  - Presentation In Balance Sheet.

Non Current Assets		
Fixed assets	XXX	
- Acc. Depreciation	XXX	
- Provision for Im. Loss	XXX	XXX

  - Depreciation charged for subsequent years.

    $$= \frac{\text{O.cost-Acc. Dep.} - \text{Pro. Im.loss}}{\text{life remaining}}$$

- Indication of Impairment loss

  If any of the following indicators exist on the balance sheet date then entity should make formal estimate for calculation of Im. Loss (non exhaustive list)

External	Intermal
• Market price of assets have declined considerably. • Interest rate in Market have increased significantly. • Adverse market condition are prevailing in regard to demand, govt. policies, technology etc. • Ratio b/w market cap. and Book value of net assets is less than 1	• There has been physical damage to the assets during the period. • Poor economic performance has been reported for the asset. • Management have made plans to restructure the entity.

- Calculation of Realizable amount is applied for Cash Generating Unit (CGU) means group of assets working together to generate cash flow. Such CGU should be the smallest Unit working together.
- Recognition of Liability. As per AS-29
  Due to Impairment whenever NSP is negative and impairment loss has been recognized as per AS-28 then provision for expected loss due to disposal should be made in accordance with AS-29.
  Amt of Provision will be equal to negative value of NSP.
- Disclosure requirement.
  1. Im. Loss recognized in PnL A/c.
  2. Im. Loss reversed in PnL A/c.
  3. Im loss recognized in R.Reserve.
  4. Im loss reversed in R.Reserve.
  5. Segment effected due to impairment loss should be reported.
  6. Indicators of Im. Loss should be explained.
  7. NSP, Value of use, discount rate should be disclosed.
  8. CGU of entity.

Ind AS-36 (Impairment of Assets)

- This AS has no exemption.
- Not applicable on

a. Stock	AS-2
b. Financial Assets	AS-30
c. Investment	AS-13
d. DTA	AS-22
e. Investment for Employees benefits	AS-15

- This AS is applicable to :
  a. Investment in Subsidiary.
  b. Investment in Joint Venture.
  c. Investment in Associates.
- Calculation of R.Amt. are same as that of AS-28, there is no *exemption* on value of use. NSP is not called NSP but *Fair Value less Cost of Sales.*
- Indicators of Impairment loss.
  All internal and external indicators of AS-28 along with following.
  1. If investments have goodwill in its value.
  2. If subsy/Asso/JV is declaring dividend of amount more than earned profit.
- Account treatment same as AS-28.

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- Treatment of goodwill and corp. Assets same as AS-28.
- Reversal of Impairment loss is same as AS-28 *except that Goodwill cannot be reversed in any situation (as per AS-28 G/W; Im. Loss is generally not reversed unless condition for reversal are satisfied)*
- Following are addition disclosure required.
    1. How Fair value less cost of sales has been calculated.
    2. How cash flow, discount rate has been calculated.
    3. Management assumption for calculations.
    4. Weights given for calculation.
    5. Managements view on CGU along with details of assets.