

Exposure Draft

Accounting Standard (AS) 36

Impairment of Assets

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The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 36, *Impairment of Assets*

The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February 2015, are applicable to the specified class of companies. Accounting Standards notified under Companies (Accounting Standards) Rules 2021, and those issued by the ICAI are applicable to entities to whom Ind AS are not applicable. However, on the basis of the discussions held at various standard setting forums, it has been decided to revise the Accounting Standards. Accordingly, the Accounting Standards Board of ICAI has initiated the process of revision of these standards which will be applicable to the entities to whom Ind AS are not applicable. While formulating these Standards, it was decided to maintain the consistency in the numbering of AS with Ind AS numbering.

In the above background, the ASB has finalised AS 36, *Impairment of Assets*, taking Ind AS 36, *Impairment of Assets*, notified by MCA as the base. Major differences between draft of AS 36 and Ind AS 36 are included in the Appendix 1 of the Standard. Major differences between draft of AS 36 and AS 28, *Impairment of Assets*, are included in the Appendix 2 of the Standard.

This is the Exposure Draft of the Accounting Standard (AS) 36, *Impairment of Assets*, issued by the ASB, for comments. AS 36 refers to provisions of various revised AS which are under formulation.

The ASB invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment:

*Comments can be submitted using one of the following methods so as to receive not later than **September 30, 2021**.*

Electronically:	click on http://www.icai.org/comments/asb/ to submit comments online
Email:	Comments can be sent at commentsasb@icai.in
Postal:	Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Accounting Standard (AS) 36

Impairment of Assets

*(This Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles.)*

This Accounting Standard is not mandatory for Micro entity (Level IV non-company entities) as per the criteria prescribed by the ICAI.

Objective

- 1 The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

Scope

- 2 **This Standard shall be applied in accounting for the impairment of all assets, other than:**
 - (a) **inventories (see AS 2, *Inventories*);**
 - (b) **contract assets arising from construction contracts (see AS 11, *Construction Contracts* and AS 18, *Revenue*;**
 - (c) **deferred tax assets (see AS 12, *Income Taxes*);**
 - (d) **assets arising from employee benefits (see AS 19, *Employee Benefits*);**
 - (e) **financial assets that are within the scope of AS 109, *Financial Instruments*;**
 - (f) **biological assets related to agricultural activity within the scope of AS 41 *Agriculture* that are measured at fair value less costs to sell; and**
 - (g) **non-current assets (or disposal groups) classified as held for sale in accordance with AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.**

- 3 This Standard does not apply to inventories, assets arising from construction contracts, deferred tax assets, assets arising from employee benefits, or assets classified as held for sale (or included in a disposal group that is classified as held for sale) because Accounting Standards applicable to these assets contain requirements for recognising and measuring these assets.
- 4 This Standard applies to financial assets classified as:
- (a) subsidiaries, as defined in AS 110, *Consolidated and Separate Financial Statements*¹;
 - (b) associates, as defined in AS 28, *Investments in Associates and Joint Ventures*²; and
 - (c) joint ventures, as defined in AS 111, *Joint Arrangements*³.

For impairment of other financial assets, refer to AS 109.

- 5 This Standard does not apply to financial assets within the scope of AS 109, or biological assets related to agricultural activity measured at fair value less costs to sell within the scope of AS 41. However, this Standard applies to assets that are carried at revalued amount (ie fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other ASs, such as the revaluation model in AS 16, *Property, Plant and Equipment*. The only difference between an asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the asset.
- (a) If the disposal costs are negligible, the recoverable amount of the revalued asset is necessarily close to, or greater than, its revalued amount. In this case, after the revaluation requirements have been applied, it is unlikely that the revalued asset is impaired and recoverable amount need not be estimated.
 - (b) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the asset may be impaired.

Definitions

¹ AS 110 is under formulation.

² AS 28 is under formulation.

³ AS 111 is under formulation.

6 The following terms are used in this Standard with the meanings specified:

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

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.

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.

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.

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.⁴

Fair value is the value as defined under AS 113, *Fair Value Measurement*⁵.

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

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.

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.

⁴ In the case of an intangible asset, the term ‘amortisation’ is generally used instead of ‘depreciation’. The two terms have the same meaning

⁵ AS 113 is under formulation.

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

Provided that in the context of Small and Medium sized Companies as defined in the MCA notification and Small and Medium sized Entities (Level III and II non-company entities) as per criteria prescribed by the ICAI, the definition of the term ‘value-in-use’ would read as follows:

***Value in use* is the present value of future cash flows expected to be derive from an asset or cash generating unit or a reasonable estimate thereof.**

Explanation:

The definition of the term ‘value in use’ in the proviso implies that instead of using the present value technique, a reasonable estimate of the ‘value in use’ can be made. Consequently, if an SMC/SME chooses to measure the ‘value in use’ by not using the present value technique, the relevant provisions of AS 36, such as discount rate etc., would not be applicable to such an SMC/SME.

Identifying an asset that may be impaired

- 7 Paragraphs 8–15 specify when recoverable amount shall be determined. These requirements use the term ‘an asset’ but apply equally to an individual asset or a cash-generating unit. The remainder of this Standard is structured as follows:
- (a) paragraphs 16-52 set out the requirements for measuring recoverable amount. These requirements also use the term ‘an asset’ but apply equally to an individual asset and a cash-generating unit.
 - (b) paragraphs 53-95 set out the requirements for recognising and measuring impairment losses. Recognition and measurement of impairment losses for individual assets other than goodwill are dealt with in paragraphs 53-59. Paragraphs 60-95 deal with the recognition and measurement of impairment losses for cash-generating units and goodwill.
 - (c) paragraphs 96-103 set out the requirements for reversing an impairment loss recognised in prior periods for an asset or a cash-generating unit. Again, these requirements use the term ‘an asset’ but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 104-108, for a cash-generating unit in paragraphs 109 and 110, and for goodwill in paragraphs 111 and 112.
 - (d) paragraphs 113-118 specify the information to be disclosed about impairment losses and reversals of impairment losses for assets and cash-generating units.

- 8 An asset is impaired when its carrying amount exceeds its recoverable amount. Paragraphs 10-12 describe some indications that an impairment loss may have occurred. If any of those indications is present, an entity is required to make a formal estimate of recoverable amount.
- 9 **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 shall estimate the recoverable amount of the asset.**
- 10 **In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.**
- (b) **significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.**
- (c) **market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.**
- (d) **the carrying amount of the net assets of the entity is more than its market capitalisation.**

Internal sources of information

- (e) **evidence is available of obsolescence or physical damage of an asset.**
- (f) **significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date⁶.**

⁶ Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of this Standard and is accounted for in accordance with AS 105, *Non-current Assets Held for Sale and Discontinued Operations*.

- (g) **evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.**

Dividend from a subsidiary, joint venture or associate

- (h) **for an investment in a subsidiary, joint venture or associate, the investor recognises a dividend from the investment and evidence is available that:**

- (i) **the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or**
- (ii) **the dividend exceeds the total income of the subsidiary, joint venture or associate in the period the dividend is declared.**

11 The list in paragraph 10 is not exhaustive. An entity may identify other indications that an asset may be impaired and these would also require the entity to determine the asset's recoverable amount or, in the case of goodwill, perform an impairment test in accordance with paragraphs 75-87.

12 Evidence from internal reporting that indicates that an asset may be impaired includes the existence of:

- (a) cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
- (b) actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
- (c) a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted loss, flowing from the asset; or
- (d) operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

13 The concept of materiality applies in identifying whether the recoverable amount of an asset needs to be estimated. For example, if previous calculations show that an asset's recoverable amount is significantly greater than its carrying amount, the entity need not re-estimate the asset's recoverable amount if no events have occurred that would eliminate that difference. Similarly, previous analysis may show that an asset's recoverable amount is not sensitive to one (or more) of the indications listed in paragraph 10.

- 14 As an illustration of paragraph 13, if market interest rates or other market rates of return on investments have increased during the period, an entity is not required to make a formal estimate of an asset's recoverable amount in the following cases:
- (a) if the discount rate used in calculating the asset's value in use is unlikely to be affected by the increase in these market rates. For example, increases in short-term interest rates may not have a material effect on the discount rate used for an asset that has a long remaining useful life.
 - (b) if the discount rate used in calculating the asset's value in use is likely to be affected by the increase in these market rates but previous sensitivity analysis of recoverable amount shows that:
 - (i) it is unlikely that there will be a material decrease in recoverable amount because future cash flows are also likely to increase (eg in some cases, an entity may be able to demonstrate that it adjusts its revenues to compensate for any increase in market rates); or
 - (ii) the decrease in recoverable amount is unlikely to result in a material impairment loss.
- 15 If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard applicable to the asset, even if no impairment loss is recognised for the asset.

Measuring recoverable amount

- 16 This Standard defines recoverable amount as the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use. Paragraphs 17-52 set out the requirements for measuring recoverable amount. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit.
- 17 It is not always necessary to determine both an asset's fair value less costs of disposal and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.
- 18 It may be possible to measure fair value less costs of disposal, even if there is not a quoted price in an active market for an identical asset. However, sometimes it will not be possible to measure fair value less costs of disposal because there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the asset would take place between market participants at the measurement

date under current market conditions. In this case, the entity may use the asset's value in use as its recoverable amount.

- 19 If there is no reason to believe that an asset's value in use materially exceeds its fair value less costs of disposal, the asset's fair value less costs of disposal may be used as its recoverable amount. This will often be the case for an asset that is held for disposal. This is because the value in use of an asset held for disposal will consist mainly of the net disposal proceeds, as the future cash flows from continuing use of the asset until its disposal are likely to be negligible.
- 20 Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs (see paragraphs 60-90), unless either:
- (a) the asset's fair value less costs of disposal is higher than its carrying amount; or
 - (b) the asset's value in use can be estimated to be close to its fair value less costs of disposal and fair value less costs of disposal can be measured.
- 21 In some cases, estimates, averages and computational short cuts may provide reasonable approximations of the detailed computations illustrated in this Standard for determining fair value less costs of disposal or value in use.

Fair value less costs of disposal

- 22 Costs of disposal, other than those that have been recognised as liabilities, are deducted in measuring fair value less costs of disposal. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale. However, termination benefits (as defined in AS 19) and costs associated with reducing or reorganising a business following the disposal of an asset are not direct incremental costs to dispose of the asset.
- 23 Sometimes, the disposal of an asset would require the buyer to assume a liability and only a single fair value less costs of disposal is available for both the asset and the liability. Paragraph 73 explains how to deal with such cases.

Value in use

- 24 **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.**

25 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.

26 The elements identified in paragraph 24(b), (d) and (e) can be reflected either as adjustments to the future cash flows or as adjustments to the discount rate. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result shall be to reflect the expected present value of the future cash flows, ie the weighted average of all possible outcomes. Appendix A provides additional guidance on the use of present value techniques in measuring an asset's value in use.

Basis for estimates of future cash flows

27 In measuring value in use an entity shall:

- (a) **base cash flow projections 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.**
- (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) **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.**
- 28 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.
- 29 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.
- 30 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.
- 31 When conditions are favourable, competitors are likely to enter the market and restrict growth. Therefore, entities will have difficulty in exceeding the average historical growth rate over the long term (say, twenty years) for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used.
- 32 In using information from financial budgets/forecasts, an entity considers whether the information reflects reasonable and supportable assumptions and represents management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset.

Composition of estimates of future cash flows

- 33 Estimates of future cash flows shall include:**

- (a) **projections of cash inflows from the continuing use of the asset;**
 - (b) **projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and**
 - (c) **net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.**
- 34 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).
- 35 Projections of cash outflows include those for the day-to-day servicing of the asset as well as future overheads that can be attributed directly, or allocated on a reasonable and consistent basis, to the use of the asset.
- 36 When the carrying amount of an asset does not yet include all the cash outflows to be incurred before it is ready for use or sale, the estimate of future cash outflows includes an estimate of any further cash outflow that is expected to be incurred before the asset is ready for use or sale. For example, this is the case for a building under construction or for a development project that is not yet completed.
- 37 To avoid double-counting, estimates of future cash flows do not include:
- (a) cash inflows from assets that generate cash inflows that are largely independent of the cash inflows from the asset under review (for example, financial assets such as receivables); and
 - (b) cash outflows that relate to obligations that have been recognised as liabilities (for example, payables, pensions or provisions).
- 38 Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from:**
- (a) **a future restructuring to which an entity is not yet committed; or**
 - (b) **improving or enhancing the asset's performance.**

- 39 Because future cash flows are estimated for the asset in its current condition, value in use does not reflect:
- (a) future cash outflows or related cost savings (for example reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed; or
 - (b) future cash outflows that will improve or enhance the asset's performance or the related cash inflows that are expected to arise from such outflows.
- 40 A restructuring is a programme that is planned and controlled by management and materially changes either the scope of the business undertaken by an entity or the manner in which the business is conducted. AS 37, *Provisions, Contingent Liabilities and Contingent Assets*, contains guidance clarifying when an entity is committed to a restructuring.
- 41 When an entity becomes committed to a restructuring, some assets are likely to be affected by this restructuring. Once the entity is committed to the restructuring:
- (a) its estimates of future cash inflows and cash outflows for the purpose of determining value in use reflect the cost savings and other benefits from the restructuring (based on the most recent financial budgets/forecasts approved by management); and
 - (b) its estimates of future cash outflows for the restructuring are included in a restructuring provision in accordance with AS 37. Illustration 5 given in the illustrations attached to the Standard illustrates the effect of a future restructuring on a value in use calculation)
- 42 Until an entity incurs cash outflows that improve or enhance the asset's performance, estimates of future cash flows do not include the estimated future cash inflows that are expected to arise from the increase in economic benefits associated with the cash outflow (see illustration 6 given in the illustrations attached to the standard).
- 43 Estimates of future cash flows include future cash outflows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition. When a cash-generating unit consists of assets with different estimated useful lives, all of which are essential to the ongoing operation of the unit, the replacement of assets with shorter lives is considered to be part of the day-to-day servicing of the unit when estimating the future cash flows associated with the unit. Similarly, when a single asset consists of components with different estimated useful lives, the replacement of components with shorter lives is considered to be part of the day-to-day servicing of the asset when estimating the future cash flows generated by the asset.

44 Estimates of future cash flows shall not include:

- (a) cash inflows or outflows from financing activities; or**
- (b) income tax receipts or payments.**

45 Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored. Because the time value of money is considered by discounting the estimated future cash flows, these cash flows exclude cash inflows or outflows from financing activities. Similarly, because the discount rate is determined on a pre-tax basis, future cash flows are also estimated on a pre-tax basis.

46 The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life shall be the amount that an entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

47 The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is determined in a similar way to an asset's fair value less costs of disposal, except that, in estimating those net cash flows:

- (a) an entity uses prices prevailing at the date of the estimate for similar assets that have reached the end of their useful life and have operated under conditions similar to those in which the asset will be used.
- (c) the entity adjusts those prices for the effect of both future price increases due to general inflation and specific future price increases or decreases. However, if estimates of future cash flows from the asset's continuing use and the discount rate exclude the effect of general inflation, the entity also excludes this effect from the estimate of net cash flows on disposal.

48 Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that may be specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:

- (a) additional value derived from the grouping of assets (such as the creation of a portfolio of investment properties in different locations);
- (b) synergies between the asset being measured and other assets;

- (c) legal rights or legal restrictions that are specific only to the current owner of the asset; and
- (d) tax benefits or tax burdens that are specific to the current owner of the asset.

Foreign currency future cash flows

- 49 Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. An entity translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount rate

- 50 **The discount rate (rates) shall be a pre-tax rate (rates) that reflect(s) current market assessments of:**

- (a) **the time value of money; and**
- (b) **the risks specific to the asset for which the future cash flow estimates have not been adjusted.**

- 51 A rate that reflects current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset. This rate is estimated from the rate implicit in current market transactions for similar assets or from the weighted average cost of capital of a listed entity that has a single asset (or a portfolio of assets) similar in terms of service potential and risks to the asset under review. However, the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

- 52 When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. Appendix A provides additional guidance on estimating the discount rate in such circumstances.

Recognising and measuring an impairment loss

- 53 Paragraphs 54-59 set out the requirements for recognising and measuring impairment losses for an individual asset other than goodwill. Recognising and measuring impairment losses for cash-generating units and goodwill are dealt with in paragraphs 60-95.

- 54 **If, and only if, the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. That reduction is an impairment loss.**
- 55 **An impairment loss shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Standard (for example, in accordance with the revaluation model in AS 16). Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that other Standard.**
- 56 An impairment loss on a non-revalued asset is recognised in profit or loss. However, an impairment loss on a revalued asset is recognised directly in any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset.
- 57 **When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, an entity shall recognise a liability if, and only if, that is required by another Standard.**
- 58 **After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**
- 59 If an impairment loss is recognised, any related deferred tax assets or liabilities are determined in accordance with AS 12.(see illustration 3 given in the illustrations attached to the Standard)

Cash-generating units and goodwill

- 60 Paragraphs 61-95 and Appendix C set out the requirements for identifying the cash-generating unit to which an asset belongs and determining the carrying amount of, and recognising impairment losses for, cash-generating units and goodwill.

Identifying the cash-generating unit to which an asset belongs

- 61 **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 shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).**
- 62 The recoverable amount of an individual asset cannot be determined if:

- (a) 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
- (b) 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.

Example

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.

It is not possible to estimate the recoverable amount of the private railway because its value in use cannot be determined and is probably different from scrap value. Therefore, the entity estimates the recoverable amount of the cash-generating unit to which the private railway belongs, ie the mine as a whole.

- 63 As defined in paragraph 6, an asset's cash-generating unit is the smallest group of assets that includes the asset and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Identification of an asset's cash-generating unit involves judgement. If recoverable amount cannot be determined for an individual asset, an entity identifies the lowest aggregation of assets that generate largely independent cash inflows.

Example

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 entity does not have the option to curtail any one bus route, the lowest level of identifiable cash inflows 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.

- 64 Cash inflows are inflows of cash and cash equivalents received from parties external to the entity. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), an entity considers various factors including how management monitors the entity's operations (such as by product lines, businesses, individual locations, districts or regional areas) or how management makes decisions about continuing

or disposing of the entity's assets and operations. Illustration 1 in the Illustrations attached to the Standard illustrates identification of a cash-generating unit.

65 If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity shall use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- (a) the future cash inflows used to determine the asset's or cash-generating unit's value in use; and**
- (b) the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.**

66 Even if part or all of the output produced by an asset or a group of assets is used by other units of the entity (for example, products at an intermediate stage of a production process), this asset or group of assets forms a separate cash-generating unit if the entity could sell the output on an active market. This is because the asset or group of assets could generate cash inflows that would be largely independent of the cash inflows from other assets or groups of assets. In using information based on financial budgets/forecasts that relates to such a cash-generating unit, or to any other asset or cash-generating unit affected by internal transfer pricing, an entity adjusts this information if internal transfer prices do not reflect management's best estimate of future prices that could be achieved in arm's length transactions.

67 Cash-generating units shall be identified consistently from period to period for the same asset or types of assets, unless a change is justified.

68 If an entity determines that an asset belongs to a cash-generating unit different from that in previous periods, or that the types of assets aggregated for the asset's cash-generating unit have changed, paragraph 117 requires disclosures about the cash-generating unit, if an impairment loss is recognised or reversed for the cash-generating unit.

Recoverable amount and carrying amount of a cash-generating unit

69 The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs of disposal and its value in use. For the purpose of determining the recoverable amount of a cash-generating unit, any reference in paragraphs 17-52 to 'an asset' is read as a reference to 'a cash-generating unit'.

70 The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

71 The carrying amount of a cash-generating unit:

- (a) includes the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the cash-generating unit and will generate the future cash inflows used in determining the cash-generating unit's value in use; and
- (b) does not include the carrying amount of any recognised liability, unless the recoverable amount of the cash-generating unit cannot be determined without consideration of this liability.

This is because fair value less costs of disposal and value in use of a cash-generating unit are determined excluding cash flows that relate to assets that are not part of the cash-generating unit and liabilities that have been recognised (see paragraphs 22 and 37).

72 When assets are grouped for recoverability assessments, it is important to include in the cash-generating unit all assets that generate or are used to generate the relevant stream of cash inflows. Otherwise, the cash-generating unit may appear to be fully recoverable when in fact an impairment loss has occurred. In some cases, although some assets contribute to the estimated future cash flows of a cash-generating unit, they cannot be allocated to the cash-generating unit on a reasonable and consistent basis. This might be the case for goodwill or corporate assets such as head office assets. Paragraphs 75-90 explain how to deal with these assets in testing a cash-generating unit for impairment.

73 It may be necessary to consider some recognised liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the price to sell the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.

Example

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
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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. 500, which is equal to the present value of the restoration costs.

The entity is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The entity has received various offers to buy the mine at a price of around Rs. 800. This price reflects the fact that the buyer will assume the obligation to restore the overburden. Disposal costs for the mine are negligible. The value in use of the mine is approximately Rs. 1,200, excluding restoration costs. The carrying amount of the mine is Rs. 1,000.

The cash-generating unit's fair value less costs of disposal is Rs. 800. 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 estimated to be Rs. 700 (Rs. 1,200 less Rs. 500). The carrying amount of the cash-generating unit is Rs. 500, which is the carrying amount of the mine (Rs. 1,000) less the carrying amount of the provision for restoration costs (Rs. 500). Therefore, the recoverable amount of the cash-generating unit exceeds its carrying amount.

- 74 For practical reasons, the recoverable amount of a cash-generating unit is sometimes determined after consideration of assets that are not part of the cash-generating unit (for example, receivables or other financial assets) or liabilities that have been recognised (for example, payables, pensions and other provisions). In such cases, the carrying amount of the cash-generating unit is increased by the carrying amount of those assets and decreased by the carrying amount of those liabilities.

Goodwill

Allocating goodwill to cash-generating units

- 75 **For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:**

- (a) **represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and**
- (b) **not be larger than a reportable segment as defined by paragraph 5 of AS 108, *Operating Segments*, before aggregation.**

- 76 Goodwill recognised in a business combination is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Goodwill does not generate cash flows independently of other assets or groups of assets, and often contributes to the cash flows of multiple cash-generating units. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the entity at which the goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units to which the goodwill relates, but to which it cannot be allocated. References in paragraphs 78-87 and Appendix C to a cash-generating unit to which goodwill is allocated should be read as references also to a group of cash-generating units to which goodwill is allocated.
- 77 Applying the requirements in paragraph 75 results in goodwill being tested for impairment at a level that reflects the way an entity manages its operations and with which the goodwill would naturally be associated. Therefore, the development of additional reporting systems is typically not necessary.
- 78 A cash-generating unit to which goodwill is allocated for the purpose of impairment testing may not coincide with the level at which goodwill is allocated in accordance with AS 21, *The Effects of Changes in Foreign Exchange Rates*, for the purpose of measuring foreign currency gains and losses. For example, if an entity is required by AS 21 to allocate goodwill to relatively low levels for the purpose of measuring foreign currency gains and losses, it is not required to test the goodwill for impairment at that same level unless it also monitors the goodwill at that level for internal management purposes.
- 79 If the initial allocation of goodwill acquired in a business combination cannot be completed before the end of the annual period in which the business combination is effected, that initial allocation shall be completed before the end of the first annual period beginning after the acquisition date.**
- 80 In accordance with AS 103, *Business Combinations*⁷, if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected, the acquirer:
- (a) accounts for the combination using those provisional values; and
 - (b) recognises any adjustments to those provisional values as a result of completing the initial accounting within the measurement period, which will not exceed twelve months from the acquisition date.

⁷ AS 103 is under formulation. Accordingly, provisions related to AS 103 under this standard will be finalised once AS 103 is finalised.

In such circumstances, it might also not be possible to complete the initial allocation of the goodwill recognised in the combination before the end of the annual period in which the combination is effected.

81 If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be:

- (a) included in the carrying amount of the operation when determining the gain or loss on disposal; and**
- (b) measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with the operation disposed of.**

Example

An entity sells for Rs. 100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is Rs. 300.

Because the goodwill allocated to the cash-generating unit cannot be non-arbitrarily identified or associated with an asset group at a level lower than that unit, the goodwill associated with the operation disposed of is measured on the basis of the relative values of the operation disposed of and the portion of the unit retained. Therefore, 25 per cent of the goodwill allocated to the cash-generating unit is included in the carrying amount of the operation that is sold.

82 If an entity reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill shall be reallocated to the units affected. This reallocation shall be performed using a relative value approach similar to that used when an entity disposes of an operation within a cash-generating unit, unless the entity can demonstrate that some other method better reflects the goodwill associated with the reorganised units.

Example

Goodwill had previously been allocated to cash-generating unit A. The goodwill allocated to A cannot be identified or associated with an asset group at a level lower than A, except arbitrarily. A is to be divided and integrated into three other cash-generating units, B, C and D.

Because the goodwill allocated to A cannot be non-arbitrarily identified or associated with an asset group at a level lower than A, it is reallocated to units B, C and D on the basis of the relative values of the three portions of A before those portions are integrated with B, C and D.

Testing cash-generating units with goodwill for impairment

- 83** When, as described in paragraph 76, goodwill relates to a cash-generating unit 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 shall be recognised in accordance with paragraph 91.
- 84** A cash-generating unit to which goodwill has been allocated shall be tested for impairment 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 shall recognise the impairment loss in accordance with paragraph 91.

Timing of impairment tests

- 85** If the assets constituting the cash-generating unit 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 cash-generating units constituting a group of cash-generating units 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.
- 86** At the time of impairment testing a cash-generating unit 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.

87 The most recent detailed calculation made in a preceding period of the recoverable amount of a cash-generating unit to which goodwill has been allocated may be used in the impairment test of that unit in the current period provided all of the following criteria are met:

- (a) the assets and liabilities making up the 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 carrying amount of the unit 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 current carrying amount of the unit is remote.**

Corporate assets

88 Corporate assets include group or divisional assets such as the building of a headquarters or a division of the entity, EDP equipment or a research centre. The structure of an entity determines whether an asset meets this Standard's definition of corporate assets for a particular cash-generating unit. The distinctive characteristics of corporate assets are that they do not generate cash inflows independently of other assets or groups of assets and their carrying amount cannot be fully attributed to the cash-generating unit under review.

89 Because corporate assets do not generate separate cash inflows, the recoverable amount of an individual corporate asset cannot be determined unless management has decided to dispose of the asset. As a consequence, if there is an indication that a corporate asset may be impaired, recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of this cash-generating unit or group of cash-generating units. Any impairment loss is recognised in accordance with paragraph 91.

90 In testing a cash-generating unit for impairment, an entity shall identify all the corporate assets that relate to the cash-generating unit under review. If a portion of the carrying amount of a corporate asset:

- (a) can be allocated on a reasonable and consistent basis to that unit, the entity shall compare the carrying amount of the unit, including the portion of the carrying amount of the corporate asset allocated to the**

unit, with its recoverable amount. Any impairment loss shall be recognised in accordance with paragraph 91.

- (b) cannot be allocated on a reasonable and consistent basis to that unit, the entity shall:
 - (i) compare the carrying amount of the unit, excluding the corporate asset, with its recoverable amount and recognise any impairment loss in accordance with paragraph 91;
 - (ii) identify the smallest group of cash-generating units that includes the cash-generating unit under review and to which a portion of the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis; and
 - (iii) compare the carrying amount of that group of cash-generating units, including the portion of the carrying amount of the corporate asset allocated to that group of units, with the recoverable amount of the group of units. Any impairment loss shall be recognised in accordance with paragraph 91.

Impairment loss for a cash-generating unit

91 An impairment loss shall be recognised for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

- (a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and
- (b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets and recognised in accordance with paragraph 55.

92 In allocating an impairment loss in accordance with paragraph 91, an entity shall not reduce the carrying amount of an asset below the highest of:

- (a) its fair value less costs of disposal (if measurable);
- (b) its value in use (if determinable); and
- (c) zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units).

- 93 If it is not practicable to estimate the recoverable amount of each individual asset of a cash-generating unit, this Standard requires an arbitrary allocation of an impairment loss between the assets of that unit, other than goodwill, because all assets of a cash-generating unit work together.
- 94 If the recoverable amount of an individual asset cannot be determined (see paragraph 62):
- (a) an impairment loss is recognised for the asset if its carrying amount is greater than the higher of its fair value less costs of disposal and the results of the allocation procedures described in paragraphs 91 and 92; and
 - (b) no impairment loss is recognised for the asset if the related cash-generating unit is not impaired. This applies even if the asset's fair value less costs of disposal is less than its carrying amount.

Example

A machine has suffered physical damage but is still working, although not as well as before it was damaged. The machine's fair value less costs of disposal is less than its carrying amount. The machine does not generate independent cash inflows. The smallest identifiable group of assets that includes the machine and generates cash inflows that are largely independent of the cash inflows from other assets is the production line to which the machine belongs. The recoverable amount of the production line shows that the production line taken as a whole is not impaired.

Assumption 1: budgets/forecasts approved by management reflect no commitment of management to replace the machine.

The recoverable amount of the machine alone cannot be estimated because the machine's value in use:

(a) may differ from its fair value less costs of disposal; and

(b) can be determined only for the cash-generating unit to which the machine belongs (the production line).

The production line is not impaired. Therefore, no impairment loss is recognised for the machine. Nevertheless, the entity may need to reassess the depreciation period or the depreciation method for the machine. Perhaps a shorter depreciation period or a faster depreciation method is required to reflect the expected remaining useful life of the machine or the pattern in which economic

benefits are expected to be consumed by the entity.

Assumption 2: budgets/forecasts approved by management reflect a commitment of management to replace the machine and sell it in the near future. Cash flows from continuing use of the machine until its disposal are estimated to be negligible.

The machine's value in use can be estimated to be close to its fair value less costs of disposal. Therefore, the recoverable amount of the machine can be determined and no consideration is given to the cash-generating unit to which the machine belongs (ie the production line). Because the machine's fair value less costs of disposal is less than its carrying amount, an impairment loss is recognised for the machine.

- 95 After the requirements in paragraphs 91 and 92 have been applied, a liability shall be recognised for any remaining amount of an impairment loss for a cash-generating unit if, and only if, that is required by another Accounting Standard.**

Reversing an impairment loss

- 96 Paragraphs 97-103 set out the requirements for reversing an impairment loss recognised for an asset or a cash-generating unit in prior periods. These requirements use the term 'an asset' but apply equally to an individual asset or a cash-generating unit. Additional requirements for an individual asset are set out in paragraphs 104-108, for a cash-generating unit in paragraphs 109 and 110 and for goodwill in paragraphs 111 and 112.

- 97 **An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.**

- 98 **In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**

External sources of information

- (a) **there are observable indications that the asset's value has increased significantly during the period.**
- (b) **significant changes with a favourable effect on the entity have taken place during the period, or will take place in the near future, in the**

technological, market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated.

- (c) market interest rates or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.**

Internal sources of information

- (d) significant changes with a favourable effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used. These changes include costs incurred during the period to improve or enhance the asset's performance or restructure the operation to which the asset belongs.**
- (e) evidence is available from internal reporting that indicates that the economic performance of the asset is, or will be, better than expected.**

99 Indications of a potential decrease in an impairment loss in paragraph 98 mainly mirror the indications of a potential impairment loss in paragraph 10.

100 If there is an indication that an impairment loss recognised for an asset other than goodwill may no longer exist or may have decreased, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value may need to be reviewed and adjusted in accordance with the Accounting Standard applicable to the asset, even if no impairment loss is reversed for the asset.

101 An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as described in paragraph 104, be increased to its recoverable amount. That increase is a reversal of an impairment loss.

102 A reversal of an impairment loss reflects an increase in the estimated service potential of an asset, either from use or from sale, since the date when an entity last recognised an impairment loss for that asset. Paragraph 117 requires an entity to identify the change in estimates that causes the increase in estimated service potential. Examples of changes in estimates include:

- (a) a change in the basis for recoverable amount (ie whether recoverable amount is based on fair value less costs of disposal or value in use);**

- (b) if recoverable amount was based on value in use, a change in the amount or timing of estimated future cash flows or in the discount rate; or
 - (c) if recoverable amount was based on fair value less costs of disposal, a change in estimate of the components of fair value less costs of disposal.
- 103 An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash inflows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the 'unwinding' of the discount), even if the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an impairment loss for an individual asset

- 104 The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.**
- 105 Any increase in the carrying amount of an asset other than goodwill above the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years is a revaluation. In accounting for such a revaluation, an entity applies the Accounting Standard applicable to the asset.
- 106 A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another Accounting Standard (for example, the revaluation model in AS 16). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Accounting Standard.**
- 107 A reversal of an impairment loss on a revalued asset is recognised directly in equity under the heading revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in profit or loss, a reversal of that impairment loss is also recognised in profit or loss.
- 108 After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.**

Reversing an impairment loss for a cash-generating unit

- 109** A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets and recognised in accordance with paragraph 106.
- 110** In allocating a reversal of an impairment loss for a cash-generating unit in accordance with paragraph 109, the carrying amount of an asset shall not be increased above the lower of:
- (a) its recoverable amount (if determinable); and
 - (b) the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit, except for goodwill.

Reversing an impairment loss for goodwill

- 111** An impairment loss recognised for goodwill shall not be reversed in a subsequent period.
- 112** AS 38, *Intangible Assets*, prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognised for the acquired goodwill.

Disclosure

- 113** An entity shall disclose the following for each class of assets:
- (a) the amount of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are included.
 - (b) the amount of reversals of impairment losses recognised in profit or loss during the period and the line item(s) of the statement of profit and loss in which those impairment losses are reversed.

- (c) **the amount of impairment losses on revalued assets recognised directly against revaluation surplus during the period.**
 - (d) **the amount of reversals of impairment losses on revalued assets recognised in revaluation surplus during the period.**
- 114 A class of assets is a grouping of assets of similar nature and use in an entity's operations.
- 115 The information required in paragraph 113 may be presented with other information disclosed for the class of assets. For example, this information may be included in a reconciliation of the carrying amount of property, plant and equipment, at the beginning and end of the period, as required by AS 16.
- 116 **An entity that applies AS 108 shall disclose the following for each reportable segment based on entity primary format (as defined in AS 108):**
 - (a) **the amount of impairment losses recognised in profit or loss and directly against revaluation surplus during the period.**
 - (b) **the amount of reversals of impairment losses recognised in profit or loss and in revaluation surplus during the period.**
- 117 **An entity shall disclose the following for an individual asset (including goodwill) or a cash-generating unit, for which an impairment loss has been recognised or reversed during the period:**
 - (a) **the events and circumstances that led to the recognition or reversal of the impairment loss.**
 - (b) **the amount of the impairment loss recognised or reversed.**
 - (c) **for an individual asset:**
 - (i) **the nature of the asset; and**
 - (ii) **the reportable segment to which asset belongs based on the entity's primary format (as defined in AS 108, *Segment Reporting*).**
 - (d) **for a cash-generating unit:**
 - (i) **a description of the cash-generating unit (such as whether it is a product line, a plant, a business operation, a geographical area, or a reportable segment as defined in AS 108);**

- (ii) the amount of the impairment loss recognised or reversed by class of assets and, by reportable segment based on the entity's primary format (as defined in AS 108); and
 - (iii) if the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount (if any), a description of the current and former way of aggregating assets and the reasons for changing the way the cash-generating unit is identified.
- (e) the recoverable amount of the asset (cash-generating unit) and whether the recoverable amount of the asset (cash-generating unit) is its fair value less costs of disposal or its value in use.
- (f) if the recoverable amount is fair value less costs of disposal, the entity shall disclose the following information:
 - (i) the level of the fair value hierarchy (see AS 113) within which the fair value measurement of the asset (cash-generating unit) is categorised in its entirety (without taking into account whether the 'costs of disposal' are observable);
 - (ii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) used to measure fair value less costs of disposal. If there has been a change in valuation technique, the entity shall disclose that change and the reason(s) for making it; and
 - (iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.
- (g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use. Provided that is a SMC or SME chooses to measure 'value-in-use' as per proviso to paragraph 6, such an SMC/SME need not to disclose the information required by paragraph 117(g).

118 An entity shall disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information is disclosed in accordance with paragraph 117:

- (a) **the main classes of assets affected by impairment losses and the main classes of assets affected by reversals of impairment losses.**
 - (b) **the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.**
- 119 An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period .

Appendix A

Using present value techniques to measure value in use

This appendix is an integral part of the AS. It provides guidance on the use of present value techniques in measuring value in use. Although the guidance uses the term 'asset', it equally applies to a group of assets forming a cash-generating unit.

The components of a present value measurement

- A1 The following elements together capture the economic differences between assets:
- (a) an estimate of the future cash flow, or in more complex cases, series of future cash flows the entity expects to derive from the asset;
 - (b) expectations about possible variations in the amount or timing of those 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, sometimes unidentifiable, factors (such as illiquidity) that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.
- A2 This appendix contrasts two approaches to computing present value, either of which may be used to estimate the value in use of an asset, depending on the circumstances. Under the 'traditional' approach, adjustments for factors (b)–(e) described in paragraph A1 are embedded in the discount rate. Under the 'expected cash flow' approach, factors (b), (d) and (e) cause adjustments in arriving at risk-adjusted expected cash flows. Whichever approach an entity adopts to reflect expectations about possible variations in the amount or timing of future cash flows, the result should be to reflect the expected present value of the future cash flows, ie the weighted average of all possible outcomes.

General principles

- A3 The techniques used to estimate future cash flows and interest rates will vary from one situation to another depending on the circumstances surrounding the asset in question. However, the following general principles govern any application of present value techniques in measuring assets:

- (a) interest rates used to discount cash flows should reflect assumptions that are consistent with those inherent in the estimated cash flows. Otherwise, the effect of some assumptions will be double-counted or ignored. For example, a discount rate of 12 per cent might be applied to contractual cash flows of a loan receivable. That rate reflects expectations about future defaults from loans with particular characteristics. That same 12 per cent rate should not be used to discount expected cash flows because those cash flows already reflect assumptions about future defaults.
- (b) estimated cash flows and discount rates should be free from both bias and factors unrelated to the asset in question. For example, deliberately understating estimated net cash flows to enhance the apparent future profitability of an asset introduces a bias into the measurement.
- (c) estimated cash flows or discount rates should reflect the range of possible outcomes rather than a single most likely, minimum or maximum possible amount.

Traditional and expected cash flow approaches to present value

Traditional approach

- A4 Accounting applications of present value have traditionally used a single set of estimated cash flows and a single discount rate, often described as ‘the rate commensurate with the risk’. In effect, the traditional approach assumes that a single discount rate convention can incorporate all the expectations about the future cash flows and the appropriate risk premium. Therefore, the traditional approach places most of the emphasis on selection of the discount rate.
- A5 In some circumstances, such as those in which comparable assets can be observed in the marketplace, a traditional approach is relatively easy to apply. For assets with contractual cash flows, it is consistent with the manner in which marketplace participants describe assets, as in ‘a 12 per cent bond’.
- A6 However, the traditional approach may not appropriately address some complex measurement problems, such as the measurement of non-financial assets for which no market for the item or a comparable item exists. A proper search for ‘the rate commensurate with the risk’ requires analysis of at least two items—an asset that exists in the marketplace and has an observed interest rate and the asset being measured. The appropriate discount rate for the cash flows being measured must be inferred from the observable rate of interest in that other asset. To draw that inference, the characteristics of the other asset’s cash flows must be similar to those of the asset being measured. Therefore, the measurer must do the following:
 - (a) identify the set of cash flows that will be discounted;

- (b) identify another asset in the marketplace that appears to have similar cash flow characteristics;
- (c) compare the cash flow sets from the two items to ensure that they are similar (for example, are both sets contractual cash flows, or is one contractual and the other an estimated cash flow?);
- (d) evaluate whether there is an element in one item that is not present in the other (for example, is one less liquid than the other?); and
- (e) evaluate whether both sets of cash flows are likely to behave (ie vary) in a similar fashion in changing economic conditions.

Expected cash flow approach

A7 The expected cash flow approach is, in some situations, a more effective measurement tool than the traditional approach. In developing a measurement, the expected cash flow approach uses all expectations about possible cash flows instead of the single most likely cash flow. For example, a cash flow might be Rs. 100, Rs. 200 or Rs. 300 with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively. The expected cash flow is Rs. 220. The expected cash flow approach thus differs from the traditional approach by focusing on direct analysis of the cash flows in question and on more explicit statements of the assumptions used in the measurement.

A8 The expected cash flow approach also allows use of present value techniques when the timing of cash flows is uncertain. For example, a cash flow of Rs. 1,000 may be received in one year, two years or three years with probabilities of 10 per cent, 60 per cent and 30 per cent, respectively. The example below shows the computation of expected present value in that situation.

Present value of Rs. 1,000 in 1 year at 5%	Rs. 952.38	
Probability	<u>10.00%</u>	Rs. 95.24
Present value of Rs. 1,000 in 2 years at 5.25%	Rs. 902.73	
Probability	<u>60.00%</u>	Rs. 541.64
Present value of Rs. 1,000 in 3 years at 5.50%	Rs. 851.61	
Probability	<u>30.00%</u>	<u>Rs. 255.48</u>
Expected present value		<u>Rs. 892.36</u>

A9 The expected present value of Rs. 892.36 differs from the traditional notion of a best estimate of Rs. 902.73 (the 60 per cent probability). A traditional present

value computation applied to this example requires a decision about which of the possible timings of cash flows to use and, accordingly, would not reflect the probabilities of other timings. This is because the discount rate in a traditional present value computation cannot reflect uncertainties in timing.

- A10 The use of probabilities is an essential element of the expected cash flow approach. Some question whether assigning probabilities to highly subjective estimates suggests greater precision than, in fact, exists. However, the proper application of the traditional approach (as described in paragraph A6) requires the same estimates and subjectivity without providing the computational transparency of the expected cash flow approach.
- A11 Many estimates developed in current practice already incorporate the elements of expected cash flows informally. In addition, accountants often face the need to measure an asset using limited information about the probabilities of possible cash flows. For example, an accountant might be confronted with the following situations:
- (a) the estimated amount falls somewhere between Rs. 50 and Rs. 250, but no amount in the range is more likely than any other amount. Based on that limited information, the estimated expected cash flow is Rs. 150 $[(50 + 250)/2]$.
 - (b) the estimated amount falls somewhere between Rs. 50 and Rs. 250, and the most likely amount is Rs. 100. However, the probabilities attached to each amount are unknown. Based on that limited information, the estimated expected cash flow is Rs. 133.33 $[(50 + 100 + 250)/3]$.
 - (c) the estimated amount will be Rs. 50 (10 per cent probability), Rs. 250 (30 per cent probability), or Rs. 100 (60 per cent probability). Based on that limited information, the estimated expected cash flow is Rs. 140 $[(50 \times 0.10) + (250 \times 0.30) + (100 \times 0.60)]$.

In each case, the estimated expected cash flow is likely to provide a better estimate of value in use than the minimum, most likely or maximum amount taken alone.

- A12 The application of an expected cash flow approach is subject to a cost-benefit constraint. In some cases, an entity may have access to extensive data and may be able to develop many cash flow scenarios. In other cases, an entity may not be able to develop more than general statements about the variability of cash flows without incurring substantial cost. The entity needs to balance the cost of obtaining additional information against the additional reliability that information will bring to the measurement.

- A13 Some maintain that expected cash flow techniques are inappropriate for measuring a single item or an item with a limited number of possible outcomes. They offer an example of an asset with two possible outcomes: a 90 per cent probability that the cash flow will be Rs. 10 and a 10 per cent probability that the cash flow will be Rs. 1,000. They observe that the expected cash flow in that example is Rs. 109 and criticise that result as not representing either of the amounts that may ultimately be paid.
- A14 Assertions like the one just outlined reflect underlying disagreement with the measurement objective. If the objective is accumulation of costs to be incurred, expected cash flows may not produce a representationally faithful estimate of the expected cost. However, this Standard is concerned with measuring the recoverable amount of an asset. The recoverable amount of the asset in this example is not likely to be Rs. 10, even though that is the most likely cash flow. This is because a measurement of Rs. 10 does not incorporate the uncertainty of the cash flow in the measurement of the asset. Instead, the uncertain cash flow is presented as if it were a certain cash flow. No rational entity would sell an asset with these characteristics for Rs. 10.

Discount rate

- A15 Whichever approach an entity adopts for measuring the value in use of an asset, interest rates used to discount cash flows should not reflect risks for which the estimated cash flows have been adjusted. Otherwise, the effect of some assumptions will be double-counted.
- A16 When an asset-specific rate is not directly available from the market, an entity uses surrogates to estimate the discount rate. The purpose is to estimate, as far as possible, a market assessment of:
- (a) the time value of money for the periods until the end of the asset's useful life; and
 - (b) factors (b), (d) and (e) described in paragraph A1, to the extent those factors have not caused adjustments in arriving at estimated cash flows.
- A17 As a starting point in making such an estimate, the entity might take into account the following rates:
- (a) the entity's weighted average cost of capital determined using techniques such as the Capital Asset Pricing Model;
 - (b) the entity's incremental borrowing rate; and
 - (c) other market borrowing rates.

- A18 However, these rates must be adjusted:
- (a) to reflect the way that the market would assess the specific risks associated with the asset's estimated cash flows; and
 - (b) to exclude risks that are not relevant to the asset's estimated cash flows or for which the estimated cash flows have been adjusted.

Consideration should be given to risks such as country risk, currency risk and price risk.

- A19 The discount rate is independent of the entity's capital structure and the way the entity financed the purchase of the asset, because the future cash flows expected to arise from an asset do not depend on the way in which the entity financed the purchase of the asset.
- A20 Paragraph 50 requires the discount rate used to be a pre-tax rate. Therefore, when the basis used to estimate the discount rate is post-tax, that basis is adjusted to reflect a pre-tax rate.
- A21 An entity normally uses a single discount rate for the estimate of an asset's value in use. However, an entity uses separate discount rates for different future periods where value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

Appendix B

References to matters contained in other Accounting Standards

This Appendix is an integral part of the AS.

This appendix lists the appendices which are part of other Accounting Standards and makes reference to S 36, *Impairment of Assets*.

1. Appendix A *.Intangible Assets-Web site Costs* contained in AS 38, *Intangible Assets*.
2. Appendix A *Changes in Existing Decommissioning, Restoration and Similar Liabilities* contained in AS 16, *Property, Plant and Equipment*.

Appendix C

Impairment testing cash-generating units with goodwill and non-controlling interests

This appendix is an integral part of the AS.

- C1 In accordance with AS 103, the acquirer measures and recognises goodwill as of the acquisition date as the excess of (a) over (b) below:
- (a) the aggregate of:
 - (i) the consideration transferred measured in accordance with AS 103, which generally requires acquisition-date fair value;
 - (ii) the amount of any non-controlling interest in the acquiree measured in accordance with AS 103; and
 - (iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
 - (b) the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed measured in accordance with AS 103.

Allocation of goodwill

- C2 Paragraph 75 of this Standard requires goodwill acquired in a business combination to be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units, or groups of units. It is possible that some of the synergies resulting from a business combination will be allocated to a cash-generating unit in which the non-controlling interest does not have an interest.

Testing for impairment

- C3 Testing for impairment involves comparing the recoverable amount of a cash-generating unit with the carrying amount of the cash-generating unit.
- C4 If an entity measures non-controlling interests as its proportionate interest in the net identifiable assets of a subsidiary at the acquisition date, rather than at fair value, goodwill attributable to non-controlling interests is included in the recoverable amount of the related cash-generating unit but is not recognised in the parent's consolidated financial statements. As a consequence, an entity shall gross

up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest. This adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impaired.

Allocating an impairment loss

- C5 Paragraph 91 requires any identified impairment loss to be allocated first to reduce the carrying amount of goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.
- C6 If a subsidiary, or part of a subsidiary, with a non-controlling interest is itself a cash-generating unit, the impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated.
- C7 If a subsidiary, or part of a subsidiary, with a non-controlling interest is part of a larger cash-generating unit, goodwill impairment losses are allocated to the parts of the cash-generating unit that have a non-controlling interest and the parts that do not. The impairment losses should be allocated to the parts of the cash-generating unit on the basis of:
- (a) to the extent that the impairment relates to goodwill in the cash-generating unit, the relative carrying values of the goodwill of the parts before the impairment; and
 - (b) to the extent that the impairment relates to identifiable assets in the cash-generating unit, the relative carrying values of the net identifiable assets of the parts before the impairment. Any such impairment is allocated to the assets of the parts of each unit pro rata on the basis of the carrying amount of each asset in the part.

In those parts that have a non-controlling interest, the impairment loss is allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated.

- C8 If an impairment loss attributable to a non-controlling interest relates to goodwill that is not recognised in the parent's consolidated financial statements (see paragraph C4), that impairment is not recognised as a goodwill impairment loss. In such cases, only the impairment loss relating to the goodwill that is allocated to the parent is recognised as a goodwill impairment loss.

Illustrations

These illustrations do not form part of the Accounting Standard. The purpose of these Illustrations is to illustrate the application of the Accounting Standard to assist in clarifying its meaning.

All these illustrations assume the entities concerned have no transactions other than those described.

Illustration 1 - Identification of Cash-Generating Units

The purpose of this Illustration is:

- (a) to give an indication of how cash-generating units are identified in various situations; and*
- (b) to highlight certain factors that an entity may consider in identifying the cash-generating unit to which an asset belongs.*

A - Retail Store Chain

Background

A1. Store X belongs to a retail store chain M. X makes all its retail purchases through M's purchasing centre. Pricing, marketing, advertising and human resources policies (except for hiring X's cashiers and salesmen) are decided by M. M also owns 5 other stores in the same city as X (although in different neighbourhoods) and 20 other stores in other cities. All stores are managed in the same way as X. X and 4 other stores were purchased 4 years ago and goodwill was recognised.

What is the cash-generating unit for X (X's cash-generating unit)?

Analysis

A2. In identifying X's cash-generating unit, an entity considers whether, for example:

- (a) internal management reporting is organised to measure performance on a store-by-store basis; and
- (b) the business is run on a store-by-store profit basis or on region/city basis.

A3. All M's stores are in different neighbourhoods and probably have different customer bases. So, although X is managed at a corporate level, X generates cash inflows that are largely independent from those of M's other stores. Therefore, it is likely that X is a cash-generating unit.

A4. If X's cash-generating unit represents the lowest level within M at which the goodwill is monitored for internal management purposes, M applies to that cash-generating unit the impairment test described in paragraph 84 of this Standard. If information about carrying amount of the goodwill is not available and monitored for internal management purposes at the level of X's cash-generating unit, M applies to that cash-generating unit the impairment test described in paragraph 83 of this Standard.

B - Plant for an Intermediate Step in a Production Process

Background

A5. 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 reporting entity.

60% of X's final production is sold to Y and the remaining 40% is sold to customers outside of the reporting entity.

For each of the following cases, what are the cash-generating units for X and Y?

Case 1: X could sell the products it sells to Y in an active market. Internal transfer prices are higher than market prices.

Case 2: There is no active market for the products X sells to Y.

Analysis

Case 1

A6. X could sell its products on an active market and, so, generate cash inflows from continuing use that would be largely independent of the cash inflows from Y. Therefore, it is likely that X is a separate cash-generating unit, although part of its production is used by Y (see paragraph 65 of this Standard).

A7. It is likely that Y is also a separate cash-generating unit. Y sells 80% of its products to customers outside of the reporting entity. Therefore, its cash inflows from continuing use can be considered to be largely independent.

A8. Internal transfer prices do not reflect market prices for X's output. Therefore, in determining value in use of both X and Y, the entity adjusts financial budgets/forecasts to reflect management's best estimate of future market prices for those of X's products that are used internally (see paragraph 65 of this Standard).

Case 2

A9. It is likely that the recoverable amount of each plant cannot be assessed independently from the recoverable amount of the other plant because:

- (a) the majority of X's production is used internally and could not be sold in an active market. So, cash inflows of X depend on demand for Y's products. Therefore, X cannot be considered to generate cash inflows that are largely independent from those of Y; and
- (b) the two plants are managed together.

A10. As a consequence, it is likely that X and Y together is the smallest group of assets that generates cash inflows from continuing use that are largely independent.

C - Single Product Enterprise

Background

A11. Entity M produces a single product and owns plants A, B and C. Each plant is located in a different continent. A produces a component that is assembled in either B or C. The combined

capacity of B and C is not fully utilised. M's products are sold world-wide from either B or C. For example, B's production can be sold in C's continent if the products can be delivered faster from B than from C. Utilisation levels of B and C depend on the allocation of sales between the two sites.

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

Case 1: There is an active market for A's products.

Case 2: There is no active market for A's products.

Analysis

Case 1

A12. It is likely that A is a separate cash-generating unit because there is an active market for its products (see Example B-Plant for an Intermediate Step in a Production Process, Case 1).

A13. Although there is an active market for the products assembled by B and C, cash inflows for B and C depend on the allocation of production across the two sites. It is unlikely that the future cash inflows for B and C can be determined individually. Therefore, it is likely that B and C together is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent.

A14. In determining the value in use of A and B plus C, M adjusts financial budgets/forecasts to reflect its best estimate of future market prices for A's products (see paragraph 65 of this Standard).

Case 2

A15. It is likely that the recoverable amount of each plant cannot be assessed independently because:

- (a) there is no active market for A's products. Therefore, A's cash inflows depend on sales of the final product by B and C; and
- (b) although there is an active market for the products assembled by B and C, cash inflows for B and C depend on the allocation of production across the two sites. It is unlikely that the future cash inflows for B and C can be determined individually.

A16. As a consequence, it is likely that A, B and C together (i.e., M as a whole) is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent.

D - Magazine Titles

Background

A17. 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?

Analysis

A18. It is likely that the recoverable amount of an individual magazine title can be assessed. Even though the level of advertising income for a title is influenced, to a certain extent, by the other titles in the customer segment, cash inflows from direct sales and advertising are identifiable for each title. In addition, although titles are managed by customer segments, decisions to abandon titles are made on an individual title basis.

A19. Therefore, it is likely that individual magazine titles generate cash inflows that are largely independent one from another and that each magazine title is a separate cash-generating unit.

E - Building: Half-Rented to Others and Half-Occupied for Own Use

Background

A20. M is a manufacturing company. It owns a headquarter building that used to be fully occupied for internal use. After down-sizing, half of the building is now used internally and half rented to third parties. The lease agreement with the tenant is for five years.

What is the cash-generating unit of the building?

Analysis

A21. The primary purpose of the building is to serve as a corporate asset, supporting M's manufacturing activities. Therefore, the building as a whole cannot be considered to generate cash inflows that are largely independent of the cash inflows from the entity as a whole. So, it is likely that the cash-generating unit for the building is M as a whole.

A22. The building is not held as an investment. Therefore, it would not be appropriate to determine the value in use of the building based on projections of future market related rents.

Illustration 2 - Calculation of Value in Use and Recognition of an Impairment Loss

In this illustration, tax effects are ignored.

Background and Calculation of Value in Use

A23. At the end of 20X0, entity T acquires entity M for Rs. 10,000 lakhs. M has manufacturing plants in 3 countries. The anticipated useful life of the resulting merged activities is 15 years.

Schedule 1. Data at the end of 20X0 (Amount in Rs. lakhs)

<i>End of 20X0</i>	<i>Allocation of purchase price</i>	<i>Fair value of identifiable assets</i>	<i>Goodwill⁽¹⁾</i>
Activities in Country A	3,000	2,000	1,000
Activities in Country B	2,000	1,500	500
Activities in Country C	5,000	3,500	1,500
Total	10,000	7,000	3,000

(1) Activities in each country represent the lowest level at which the goodwill is monitored for internal management purposes (determined as the difference between the purchase price of the activities in each country, as specified in the purchase agreement, and the fair value of the identifiable assets).

A24. T uses straight-line depreciation over a 15-year life for the Country A assets and no residual value is anticipated. In respect of goodwill, T uses straight-line amortisation over a 5 year life.

A25 Because goodwill has been allocated to the activities in each country, each of those activities must be tested for impairment if there is any indication that it may be impaired (see paragraph 84 of this Standard).

A26. In 20X4, a new government is elected in Country A. It passes legislation significantly restricting exports of T's main product. As a result, and for the foreseeable future, T's production will be cut by 40%.

A27. The significant export restriction and the resulting production decrease require T to estimate the recoverable amount of the goodwill and net assets of the Country A operations. The cash-generating unit for the goodwill and the identifiable assets of the Country A operations is the Country A operations, since no independent cash inflows can be identified for individual assets.

A28. The recoverable amounts (i.e. higher of value in use and fair value less costs of disposal) of the cash-generating units are determined on the basis of value in use. To determine the value in use for the Country A cash-generating unit (see Schedule 2), T:

- prepares cash flow forecasts derived from the most recent financial budgets/forecasts for the next five years (years 20X5-20X9) approved by management;
- estimates subsequent cash flows (years 20X10-20X15) based on declining growth rates. The growth rate for 20X10 is estimated to be 3%. This rate is lower than the average long-

term growth rate for the market in Country A; and

- (c) selects a 15% discount rate, which represents a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the Country A cash-generating unit.

Recognition and Measurement of Impairment Loss

A29. The recoverable amount of the Country A cash-generating unit is 1,360 lakhs.

A30. T compares the recoverable amount of the Country A cash-generating unit to its carrying amount (see Schedule 3).

A31. T recognises an impairment loss of Rs. 307 lakhs immediately in the statement of profit and loss. The carrying amount of the goodwill that relates to the Country A operations is eliminated before reducing the carrying amount of other identifiable assets within the Country A cash-generating unit (see paragraph 91 of this Standard).

A32. Tax effects are accounted for separately in accordance with AS 12, Income Taxes .

Schedule 2. Calculation of the value in use of the Country A cash-generating unit at the end of 20X4 (Amount in Rs. lakhs)

<i>Year</i>	<i>Long-term growth rates</i>	<i>Future cash flows</i>	<i>Present value factor at 15% discount rate⁽³⁾</i>	<i>Discounted future cash flows</i>
20X5 (n=1)		230 ⁽¹⁾	0.86957	200
20X6		253 ⁽¹⁾	0.75614	191
20X7		273 ⁽¹⁾	0.65752	180
20X8		290 ⁽¹⁾	0.57175	166
20X9		304 ⁽¹⁾	0.49718	151
20X10	3%	313 ⁽²⁾	0.43233	135
20X11	-2%	289 ⁽²⁾	0.37594	115
20X12	-6%	245 ⁽²⁾	0.32690	94
20X13	-15%	184 ⁽²⁾	0.28426	70
20X14	-25%	61 ⁽²⁾	0.24719	45
20X15	-67%		0.21494	13
Value in use				1,360

⁽¹⁾ Based on management's best estimate of net cash flow projections (after the 40% cut).

⁽²⁾ Based on an extrapolation from preceding year cash flow using declining growth rates.

⁽³⁾ The present value factor is calculated as $k = 1/(1+a)^n$, where a = discount rate and n= period of discount.

Schedule 3. Calculation and allocation of the impairment loss for the Country A cash-generating unit at the end of 20X4 (Amount in Rs. lakhs)

<i>End of 20X4</i>	<i>Goodwill</i>	<i>Identifiable assets</i>	<i>Total</i>
Historical cost	1,000	2,000	3,000
Accumulated depreciation/ amortisation (20X1-20X4)	<u>(800)</u>	<u>(533)</u>	<u>(1,333)</u>
Carrying amount	200	1,467	1,667
Impairment Loss	<u>(200)</u>	<u>(107)</u>	<u>(307)</u>
Carrying amount after impairment loss	<u>0</u>	<u>1,360</u>	<u>1,360</u>

Illustration 3 - Deferred Tax Effects

A33. An entity has an asset with a carrying amount of Rs. 1,000 lakhs. Its recoverable amount is Rs. 650 lakhs. The tax rate is 30% and the carrying amount of the asset for tax purposes is Rs. 800 lakhs. Impairment losses are not allowable as deduction for tax purposes. The effect of the impairment loss is as follows:

	<u>Amount in</u> <u>Rs. lakhs</u>
Impairment Loss recognised in the statement of profit and loss	350
Impairment Loss allowed for tax purposes	—
Timing Difference	<u>350</u>
Tax Effect of the above timing difference at 30% (deferred tax asset)	105
Less: Deferred tax liability due to difference in depreciation for accounting purposes and tax purposes [(1,000 – 800) x 30%]	<u>60</u>
Deferred tax asset	<u>45</u>

A34. In accordance with AS 12, *Income Taxes*, the entity recognises the deferred tax asset subject to the consideration of probability as set out in AS 12.

Illustration 4 - Reversal of an Impairment Loss

Use the data for entity T as presented in Illustration 2, with supplementary information as provided in this illustration. In this illustration tax effects are ignored.

Background

A35. In 20X6, the government is still in office in Country A, but the business situation is improving. The effects of the export laws on T's production are proving to be less drastic than initially expected by management. As a result, management estimates that production will increase by 30%. This favourable change requires T to re-estimate the recoverable amount of the net assets of the Country A operations (see paragraphs 97-98 of this Standard). The cash-generating unit for the net assets of the Country A operations is still the Country A operations.

A36. Calculations similar to those in Illustration 2 show that the recoverable amount of the Country A cash-generating unit is now Rs. 1,710 lakhs.

Reversal of Impairment Loss

A37. T compares the recoverable amount and the net carrying amount of the Country A cash-generating unit.

Schedule 1. Calculation of the carrying amount of the Country A cash-generating unit at the end of 20X6 (Amount in Rs. lakhs)

	<i>Goodwill</i>	<i>Identifiable assets</i>	<i>Total</i>
End of 20X4 (Example 2)			
Historical cost	1,000	2,000	3,000
Accumulated depreciation/ amortisation (4 years)	(800)	(533)	(1,333)
Impairment loss	(200)	(107)	(307)
Carrying amount after impairment loss	0	1,360	1,360
End of 20X6			
Additional depreciation (2 years) ⁽¹⁾	–	(247)	(247)
Carrying amount	0	1,113	1,113
Recoverable amount			<u>1,710</u>
Excess of recoverable amount over carrying amount			<u>597</u>

⁽¹⁾After recognition of the impairment loss at the end of 20X4, T revised the depreciation charge for the Country A identifiable assets (from Rs. 133.3 lakhs per year to Rs. 123.7 lakhs per year), based on the revised carrying amount and remaining useful life (11 years).

A38. There has been a favourable change in the estimates used to determine the recoverable amount of the Country A net assets since the last impairment loss was recognised. Therefore, in accordance with paragraph 101 of this Standard, T recognises a reversal of the impairment loss recognised in 20X4.

A39. In accordance with paragraphs 109 and 110 of this Standard, T increases the carrying amount of the Country A identifiable assets by Rs. 87 lakhs (see Schedule 3), i.e., up to the lower of recoverable amount (Rs. 1,710 lakhs) and the identifiable assets' depreciated historical cost (Rs. 1,200 lakhs) (see Schedule 2). This increase is recognised in the statement of profit and loss immediately.

Schedule 2. Determination of the depreciated historical cost of the Country A identifiable assets at the end of 20X6 (Amount in Rs. lakhs)

<i>End of 20X6</i>	<i>Identifiable assets</i>
Historical cost	2,000
Accumulated depreciation (133.3 * 6 years)	<u>(800)</u>
Depreciated historical cost	<u>1,200</u>
Carrying amount (Schedule 1)	<u>1,113</u>
Difference	87

Schedule 3. Carrying amount of the Country A assets at the end of 20X6 (Amount in Rs. lakhs)

<i>End of 20X6</i>	<i>Goodwill</i>	<i>Identifiable assets</i>	<i>Total</i>
Gross carrying amount	1,000	2,000	3,000
Accumulated depreciation/ amortisation	(800)	(780)	(1,580)
Accumulated impairment loss	(200)	(107)	(307)
Carrying amount	<u>0</u>	<u>1,113</u>	<u>1,113</u>
Reversal of impairment loss	<u>0</u>	<u>87</u>	<u>87</u>
Carrying amount after reversal of impairment loss	<u>0</u>	<u>1,200</u>	<u>1,200</u>

Illustration 5 - Treatment of a Future Restructuring

In this illustration, tax effects are ignored.

Background

A40. At the end of 20X0, entity K tests a plant for impairment. The plant is a cash-generating unit. The plant's assets are carried at depreciated historical cost. The plant has a carrying amount of Rs. 3,000 lakhs and a remaining useful life of 10 years.

A41. The plant's recoverable amount (i.e. higher of value in use and fair value less costs of disposal) is determined on the basis of a value in use calculation. Value in use is calculated using a pre-tax discount rate of 14%.

A42. Management approved budgets reflect that:

- (a) at the end of 20X3, the plant will be restructured at an estimated cost of Rs. 100 lakhs. Since K is not yet committed to the restructuring, a provision has not been recognised for the future restructuring costs; and
- (b) there will be future benefits from this restructuring in the form of reduced future cash outflows.

A43. At the end of 20X2, K becomes committed to the restructuring. The costs are still estimated to be Rs. 100 lakhs and a provision is recognised accordingly. The plant's estimated future cash flows reflected in the most recent management approved budgets are given in paragraph A47 and a current discount rate is the same as at the end of 20X0.

A44. At the end of 20X3, restructuring costs of Rs. 100 lakhs are paid. Again, the plant's estimated future cash flows reflected in the most recent management approved budgets and a current discount rate are the same as those estimated at the end of 20X2.

At the End of 20X0

Schedule 1. Calculation of the plant's value in use at the end of 20X0 (Amount in Rs. lakhs)

<i>Year</i>	<i>Future cash flows</i>	<i>Discounted at 14%</i>
20X1	300	263
20X2	280	215
20X3	420 ⁽¹⁾	283
20X4	520 ⁽²⁾	308
20X5	350 ⁽²⁾	182
20X6	420 ⁽²⁾	191
20X7	480 ⁽²⁾	192
20X8	480 ⁽²⁾	168
20X9	460 ⁽²⁾	141
20X10	400 ⁽²⁾	<u>108</u>
Value in use		<u>2,051</u>

⁽¹⁾ Excludes estimated restructuring costs reflected in management budgets.

⁽²⁾ Excludes estimated benefits expected from the restructuring reflected in management budgets.

A45. The plant's recoverable amount (value in use) is less than its carrying amount. Therefore, K recognises an impairment loss for the plant.

Schedule 2. Calculation of the impairment loss at the end of 20X0 (Amount in Rs. lakhs)

	<i>Plant</i>
Carrying amount before impairment loss	3,000
Recoverable amount (Schedule 1)	<u>2,051</u>
Impairment loss	(949)
Carrying amount after impairment loss	<u>2,051</u>

At the End of 20X1

A46. No event occurs that requires the plant's recoverable amount to be re-estimated. Therefore, no calculation of the recoverable amount is required to be performed.

At the End of 20X2

A47. The entity is now committed to the restructuring. Therefore, in determining the plant's value in use, the benefits expected from the restructuring are considered in forecasting cash flows. This results in an increase in the estimated future cash flows used to determine value in use at the end of 20X0. In accordance with paragraphs 97-98 of this Standard, the recoverable amount of the plant is re-determined at the end of 20X2.

Schedule 3. Calculation of the plant's value in use at the end of 20X2 (Amount in Rs. lakhs)

<i>Year</i>	<i>Future cash flows</i>	<i>Discounted at 14%</i>
20X3	420 ⁽¹⁾	368
20X4	570 ⁽²⁾	439
20X5	380 ⁽²⁾	256
20X6	450 ⁽²⁾	266
20X7	510 ⁽²⁾	265
20X8	510 ⁽²⁾	232
20X9	480 ⁽²⁾	192
20X10	410 ⁽²⁾	<u>144</u>
Value in use		<u>2,162</u>

⁽¹⁾ Excludes estimated restructuring costs because a liability has already been recognised.

⁽²⁾ Includes estimated benefits expected from the restructuring reflected in management budgets.

A48. The plant's recoverable amount (value in use) is higher than its carrying amount (see Schedule 4). Therefore, K reverses the impairment loss recognised for the plant at the end of 20X0.

Schedule 4. Calculation of the reversal of the impairment loss at the end of 20X2 (Amount in Rs. lakhs)

	<i>Plant</i>
Carrying amount at the end of 20X0 (Schedule 2)	2,051
<i>End of 20X2</i>	
Depreciation charge (for 20X1 and 20X2 Schedule 5)	<u>(410)</u>
Carrying amount before reversal	<u>1,641</u>
Recoverable amount (Schedule 3)	<u>2,162</u>
Reversal of the impairment loss	<u>521</u>
Carrying amount after reversal	<u>2,162</u>
Carrying amount: depreciated historical cost (Schedule 5)	2,400 ⁽¹⁾

⁽¹⁾ The reversal does not result in the carrying amount of the plant exceeding what its carrying amount would have been at depreciated historical cost. Therefore, the full reversal of the impairment loss is recognised.

At the End of 20X3

A49. There is a cash outflow of Rs. 100 lakhs when the restructuring costs are paid. Even though a cash outflow has taken place, there is no change in the estimated future cash flows used to determine value in use at the end of 20X2. Therefore, the plant's recoverable amount is not calculated at the end of 20X3.

Schedule 5. Summary of the carrying amount of the plant (Amount in Rs. lakhs)

<i>End of year</i>	<i>Depreciated historical cost</i>	<i>Recoverable amount</i>	<i>Adjusted depreciation charge</i>	<i>Impairment loss</i>	<i>Carrying amount after impairment</i>
20X0	3,000	2,051	0	(949)	2,051
20X1	2,700	n.c.	(205)	0	1,846
20X2	2,400	2,162	(205)	521	2,162
20X3	2,100	n.c.	(270)	0	1,892

n.c. = not calculated as there is no indication that the impairment loss may have increased/ decreased.

Illustration 6 - Treatment of Future Capital Expenditure

In this illustration, tax effects are ignored.

Background

A50. At the end of 20X0, entity F tests a plane for impairment. The plane is a cash-generating unit. It is carried at depreciated historical cost and its carrying amount is Rs. 1,500 lakhs. It has an estimated remaining useful life of 10 years.

A51. For the purpose of this illustration, the plane's recoverable amount (i.e. higher of value in use and fair value less costs of disposal) is determined on the basis of a value in use. Value in use is calculated using a pre-tax discount rate of 14%.

A52. Management approved budgets reflect that:

- (a) in 20X4, capital expenditure of Rs. 250 lakhs will be incurred to renew the engine of the plane; and
- (b) this capital expenditure will improve the performance of the plane by decreasing fuel consumption.

A53. At the end of 20X4, renewal costs are incurred. The plane's estimated future cash flows reflected in the most recent management approved budgets are given in paragraph A56 and a current discount rate is the same as at the end of 20X0.

At the End of 20X0

Schedule 1. Calculation of the plane's value in use at the end of 20X0 (Amount in Rs. lakhs)

<i>Year</i>	<i>Future cash flows</i>	<i>Discounted at 14%</i>
20X1	221.65	194.43
20X2	214.50	165.05
20X3	205.50	138.71
20X4	247.25 ⁽¹⁾	146.39
20X5	253.25 ⁽²⁾	131.53
20X6	248.25 ⁽²⁾	113.10
20X7	241.23 ⁽²⁾	96.40
20X8	255.33 ⁽²⁾	89.51
20X9	242.34 ⁽²⁾	74.52
20X10	228.50 ⁽²⁾	<u>61.64</u>
Value in use		<u>1,211.28</u>

⁽¹⁾ Excludes estimated renewal costs reflected in management budgets.

⁽²⁾ Excludes estimated benefits expected from the renewal of the engine reflected in management budgets.

A54. The plane's carrying amount is less than its recoverable amount (value in use). Therefore, F recognises an impairment loss for the plane.

Schedule 2. Calculation of the impairment loss at the end of 20X0 (Amount in Rs. lakhs)

	<i>Plane</i>
Carrying amount before impairment loss	1,500.00
Recoverable amount (Schedule 1)	<u>1,211.28</u>
Impairment loss	(288.72)
Carrying amount after impairment loss	<u>1,211.28</u>

Years 20X1-20X3

A55. No event occurs that requires the plane's recoverable amount to be re-estimated. Therefore, no calculation of recoverable amount is required to be performed.

At the End of 20X4

A56. The capital expenditure is incurred. Therefore, in determining the plane's value in use, the future benefits expected from the renewal of the engine are considered in forecasting cash flows. This results in an increase in the estimated future cash flows used to determine value in use at the end of 20X0. As a consequence, in accordance with paragraphs 97-98 of this Standard, the recoverable amount of the plane is recalculated at the end of 20X4.

Schedule 3. Calculation of the plane's value in use at the end of 20X4 (Amount in Rs. lakhs)

<i>Year</i>	<i>Future cash flows⁽¹⁾</i>	<i>Discounted at 14%</i>
20X5	303.21	265.97
20X6	327.50	252.00
20X7	317.21	214.11
20X8	319.50	189.17
20X9	331.00	171.91
20X10	279.99	<u>127.56</u>
Value in use		<u>1,220.72</u>

⁽¹⁾ Includes estimated benefits expected from the renewal of the engine reflected in management budgets.

A57. The plane's recoverable amount (value in use) is higher than the plane's carrying amount and depreciated historical cost (see Schedule 4). Therefore, K reverses the impairment loss recognised for the plane at the end of 20X0 so that the plane is carried at depreciated historical cost.

Schedule 4. Calculation of the reversal of the impairment loss at the end of 20X4 (Amount in Rs. lakhs)

	<i>Plane</i>
Carrying amount at the end of 20X0 (Schedule 2)	1,211.28
<i>End of 20X4</i>	
Depreciation charge (20X1 to 20X4-Schedule 5)	(484.52)
Renewal expenditure	<u>250.00</u>
Carrying amount before reversal	<u>976.76</u>
Recoverable amount (Schedule 3)	<u>1,220.72</u>
Reversal of the impairment loss	<u>173.24</u>
Carrying amount after reversal	1,150.00
Carrying amount: depreciated historical cost (Schedule 5)	<u>1,150.00⁽¹⁾</u>

⁽¹⁾ The value in use of the plane exceeds what its carrying amount would have been at depreciated historical cost. Therefore, the reversal is limited to an amount that does not result in the carrying amount of the plane exceeding depreciated historical cost.

Schedule 5. Summary of the carrying amount of the plane (Amount in Rs. lakhs)

<i>Year</i>	<i>Depreciated historical cost</i>	<i>Recoverable amount</i>	<i>Adjusted depreciation charge</i>	<i>Impairment loss</i>	<i>Carrying amount after impairment</i>
20X0	1,500.00	1,211.28	0	(288.72)	1,211.28
20X1	1,350.00	n.c.	(121.13)	0	1,090.15
20X2	1,200.00	n.c.	(121.13)	0	969.02
20X3	1,050.00	n.c.	(121.13)	0	847.89
20X4	900.00		(121.13)		
renewal	<u>250.00</u>		<u>—</u>		
	<u>1,150.00</u>	1,220.72	<u>(121.13)</u>	173.24	1,150.00
20X5	958.33	n.c.	(191.67)	0	958.33

n.c. = not calculated as there is no indication that the impairment loss may have increased/ decreased.

Illustration 7 - Allocation of Corporate Assets

In this illustration tax effects are ignored.

Background

A58. Entity M has three cash-generating units: A, B and C. There are adverse changes in the technological environment in which M operates. Therefore, M conducts impairment tests of each of its cash-generating units. At the end of 20X0, the carrying amounts of A, B and C are Rs. 100 lakhs, Rs. 150 lakhs and Rs. 200 lakhs respectively.

A59. The operations are conducted from a headquarter. The carrying amount of the headquarter assets is Rs. 200 lakhs: a headquarter building of Rs. 150 lakhs and a research centre of Rs. 50 lakhs. The relative carrying amounts of the cash-generating units are a reasonable indication of the proportion of the head-quarter building devoted to each cash-generating unit. The carrying amount of the research centre cannot be allocated on a reasonable basis to the individual cash-generating units.

A60. The remaining estimated useful life of cash-generating unit A is 10 years. The remaining useful lives of B, C and the headquarter assets are 20 years. The headquarter assets are depreciated on a straight-line basis.

A61. The recoverable amount (higher of value in use and fair value less costs of disposal) of each cash-generating unit is based on its value in use. Value in use is calculated using a pre-tax discount rate of 15%.

Identification of Corporate Assets

A62. In accordance with paragraph 90 of this Standard, M first identifies all the corporate assets that relate to the individual cash-generating units under review. The corporate assets are the headquarter building and the research centre.

A63. M then decides how to deal with each of the corporate assets:

- (a) the carrying amount of the headquarter building can be allocated on a reasonable and consistent basis to the cash-generating units under review.; and
- (b) the carrying amount of the research centre cannot be allocated on a reasonable and consistent basis to the individual cash- generating units under review.

Allocation of Corporate Assets

A64. The carrying amount of the headquarter building is allocated to the carrying amount of each individual cash-generating unit. A weighted allocation basis is used because the estimated remaining useful life of A's cash-generating unit is 10 years, whereas the estimated remaining useful lives of B and C's cash-generating units are 20 years.

Schedule 1. Calculation of a weighted allocation of the carrying amount of the headquarter building (Amount in Rs. lakhs)

<i>End of 20X0</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>Total</i>
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Carrying amount	100	150	200	450
Useful life	10 years	20 years	20 years	
Weighting based on useful life	1	2	2	
Carrying amount after weighting	100	300	400	800
Pro-rata allocation of the building	12.5%	37.5%	50%	100%
	(100/800)	(300/800)	(400/800)	
Allocation of the carrying amount of the building (based on pro-rata above)	<u>19</u>	<u>56</u>	<u>75</u>	<u>150</u>
Carrying amount (after allocation of the building)	<u>119</u>	<u>206</u>	<u>275</u>	<u>600</u>

Determination of Recoverable Amount

A65. Paragraph 90 of this standard requires that the recoverable amount of each individual cash-generating unit be compared with its carrying amount, including the portion of the carrying amount of the headquarters building allocated to the unit, and any resulting impairment loss recognised.

Schedule 2. Calculation of A, B, C and M's value in use at the end of 20X0 (Amount in Rs. lakhs)

Year	A		B		C		M	
	Future cash flows	Discount at 15%	Future cash flows	Discount at 15%	Future cash flows	Discount at 15%	Future cash flows	Discount at 15%
1	2	3	4	5	6	7	8	9
1	18	16	9	8	10	9	39	34
2	31	23	16	12	20	15	72	54
3	37	24	24	16	34	22	105	69
4	42	24	29	17	44	25	128	73
5	47	24	32	16	51	25	143	71
6	52	22	33	14	56	24	155	67
7	55	21	34	13	60	22	162	61
8	55	18	35	11	63	21	166	54
9	53	15	35	10	65	18	167	48
10	48	12	35	9	66	16	169	42
11			36	8	66	14	132	28
12			35	7	66	12	131	25
13			35	6	66	11	131	21
14			33	5	65	9	128	18

15	30	4	62	8	122	15
16	26	3	60	6	115	12
17	22	2	57	5	108	10
18	18	1	51	4	97	8
19	14	1	43	3	85	6
20	10	1	35	2	71	4
Value in use	<u>199</u>	<u>164</u>	<u>271</u>		<u>720⁽¹⁾</u>	

⁽¹⁾ It is assumed that the research centre generates additional future cash flows for the entity as a whole. Therefore, the sum of the value in use of each individual cash- generating unit is less than the value in use of the business as a whole. The additional cash flows are not attributable to the headquarter building.

Calculation of Impairment Losses

A66. Paragraph 90 of this standard also requires the recoverable amount of M as a whole (the smallest cash- generating unit that includes the research centre) to be compared with its carrying amount, including both the headquarters building and the research centre.

Schedule 3. Impairment testing A, B and C (Amount in Rs. lakhs)

<i>End of 20X0</i>	<i>A</i>	<i>B</i>	<i>C</i>
Carrying amount (after allocation of the building) (Schedule 1)	119	206	275
Recoverable amount (Schedule 2)	<u>199</u>	<u>164</u>	<u>271</u>
Impairment loss	<u>0</u>	<u>(42)</u>	<u>(4)</u>

A67. The next step is to allocate the impairment losses between the assets of the cash-generating units and the headquarter building.

Schedule 4. Allocation of the impairment losses for cash-generating units B and C (Amount in Rs. lakhs)

<i>Cash-generating unit</i>	<i>B</i>	<i>C</i>
To headquarter building	(12) (42*56/206)	(1) (4*75/275)
To assets in cash-generating unit	<u>(30)</u> (42*150/206)	<u>(3)</u> (4*200/275)
	<u>(42)</u>	<u>(4)</u>

A68. Since the research centre could not be allocated on a reasonable and consistent basis to A, B and C's cash-generating units, M compares the carrying amount of the smallest cash- generating unit to which the carrying amount of the research centre can be allocated (i.e., M as a whole) to its recoverable amount.

Schedule 5. Impairment testing the smallest group of cash-generating units to which carrying amount of the research centre can be allocated (i.e. M as a whole) (Amount in Rs. lakhs)

<i>End of 20X0</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>Building</i>	<i>Research M centre</i>	<i>M</i>
Carrying amount	100	150	200	150	50	650
Impairment loss arising from the first step of the test	–	(30)	(3)	(13)	–	(46)
Carrying amount after the first step of the test	100	120	197	137	50	604
Recoverable amount (Schedule 2)						<u>720</u>
Impairment for the larger” cash-generating unit					0	<u>0</u>

A69. Therefore, no additional impairment loss results from the application of the impairment test to M as a whole. Only an impairment loss of Rs. 46 lakhs is recognised as a result of the application of the first step of the test to A, B and C.

Appendix 1

Note 1: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 36 and the corresponding Indian Accounting Standard (Ind AS) 36, Impairment of Assets

Note 2: Paragraph numbering appearing in revised AS 36 can be different as compared to those in Ind AS 36.

Comparison with Ind AS 36, Impairment of Assets

1. It has been decided to formulate AS 11, *Construction Contracts* and AS 18, *Revenue*, corresponding to Ind AS 18, *Revenue*, instead of issuing standard corresponding to Ind AS 115, *Revenue from Contract with Customers*. Accordingly, paragraph 2(b) of Ind AS 36 has been modified
2. Accounting Standard corresponding to Ind AS 104, *Insurance Contracts*, will not be issued as it is not considered necessary for entities that will be following AS series of standards. Accordingly, paragraph 2(h) of Ind AS 36 has not been included in revised AS 36.
3. Revised AS 36, as compared to Ind AS 36, includes different definition of the term 'value-in-use' to provide that Small and Medium sized Companies as defined in the MCA notification and Small and Medium sized Entities (Level III and II non-company entities) as per criteria prescribed by the ICAI, instead of using the present value technique can make a reasonable estimate of the 'value in use'. Consequently, disclosure requirement under paragraph 130(g) of Ind AS 36 has been exempted for such entities in revised AS 36.
4. Since revaluation model for Intangible assets is not being permitted in the revised AS 38, *Intangible Assets*, the reference given relating to revaluation of Intangible Assets is not included in revised AS 36.
5. Ind AS 36 requires annual impairment testing for an intangible asset with an indefinite useful life or not yet available for use and goodwill acquired in a business combination. The concept of Intangible assets with indefinite useful life has not been included in revised AS 36. The impairment testing requirements for intangible assets not yet available for use have been covered under revised AS 38. Further, revised AS 36 requires impairment testing of goodwill acquired in a business combination only when there are indicators for impairment. Accordingly, paragraphs 10 and 11 of Ind AS 36 have not been included in revised AS 36 and consequent changes have been made.
6. The concept of 'Other Comprehensive Income (OCI)' section of the Statement of Profit and Loss has not been included in revised AS, therefore, impairment loss on revalued asset, which are required to be recognised in OCI in Ind AS 36, is required to

be recognised directly in revaluation surplus for the asset. Consequential changes have also been made in other paragraphs of revised AS 36.

7. Paragraphs 80(b), 129 and 130(c) (ii) of Ind AS 36 have been modified since it has been decided to retain existing AS 17 instead of revising the same on basis of Ind AS 108, *Segment Reporting*.
8. Revised AS 36 included Illustrations to illustrate the application of the Standard for guidance. Ind AS 36 does not include the same.
9. For the purpose of simplifying the disclosure requirements for entities to whom Ind AS are not applicable the following disclosure paragraphs of Ind AS 36 have not been included in revised AS 36:
 - (i) Paragraph 133 relating disclosure of unallocated goodwill acquired in a business combination to any cash generating unit
 - (ii) Paragraph 134 relating to disclosure of cash generating unit wise goodwill. Similarly, the disclosures relating intangible assets having indefinite useful life, as no such concept is considered in AS 38
 - (iii) Paragraph 135 relating to goodwill and intangibles assets allocated to multiple cash generating units
 - (iv) Paragraph 136 relating to carry forward calculation of recoverable amount.

Appendix 2

Note: This Appendix is not a part of the Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Accounting Standard (AS) 28, Impairment of Assets, and revised Accounting Standard (AS) 36, Impairment of Assets

Comparison with AS 28, Impairment of Assets

1. Revised AS 36 applies to financial assets classified as:
 - (a) subsidiaries, as defined in Ind AS 110,
 - (b) associates as defined in Ind AS 28,
 - (c) joint ventures as defined in Ind AS 111AS 28 did not apply to the above assets.
2. Revised AS 36 specifically exclude biological assets related to agricultural activity, non-current assets (or disposal groups) classified as held for sale and assets arising from employee benefits. AS 28 did not specifically exclude them.
3. Revised AS 36 defines ‘recoverable amount’ of an asset or a cash-generating unit as the higher of its fair value less costs of disposal and its value in use. However, AS 28 defined ‘recoverable amount’ as the higher of net selling price and value in use. Accordingly, AS 36 does not define ‘net selling price’ unlike AS 28 and AS 28 does not define ‘fair value’ unlike AS 36.
4. Revised AS 36 gives additional guidance on, *inter alia*, the following aspects compared to AS 28:
 - (a) estimating the value in use of an asset;
 - (b) for managements to assess the reasonableness of the assumptions on which cash flows are based; and
 - (c) using present value techniques in measuring an asset’s value in use.
5. AS 28 required that the impairment loss recognised for goodwill should be reversed in a subsequent period when it was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events that have occurred that reverse the effect of that event whereas revised AS 36 prohibits the recognition of reversals of impairment loss for goodwill.
6. Under AS 28, goodwill was allocated to CGUs only when the allocation can be done on a reasonable and consistent basis. If that requirement is not met for a specific CGU under review, the smallest CGU to which the carrying amount of goodwill can be allocated on a reasonable and consistent basis must be identified and the impairment test carried out at this level. Thus, when all or a portion of goodwill cannot be allocated reasonably and consistently to the CGU being tested for impairment, two levels of impairment tests are carried out, viz., bottom-up test and top-down test.

In revised AS 36, goodwill is allocated to cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the synergies of the business combination from which it arose. There is no bottom-up or top-down approach for allocation of goodwill.