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Ind AS 36 – Impairment of Assets

Extra drop in the value of asset beyond dep

Why is Ind AS 36 considered COMPLEX?

Most students are comfortable with depreciation — reducing an asset's value systematically. But what happens when an asset's real-world value drops sharply below even its depreciated book value? That is where Ind AS 36 comes in. It introduces the concept of Impairment — a mandatory check to ensure your Balance Sheet never shows an asset at more than what it can actually recover. The complexity lies in: (1) computing the Recoverable Amount, especially Value in Use using discounted cash flows, (2) testing at the Cash Generating Unit (CGU) level when individual testing is not possible, (3) the special treatment of Goodwill and Corporate Assets, and (4) the rules around Reversal of Impairment. This material will make all of this crystal clear.

What is NOT in Scope? (Common Exam Trap)

Exam Tip: Trade receivables, inventory, and investments (other than subsidiaries/associates/JVs) are **EXCLUDED** from the scope of Ind AS 36.

The following assets are **NOT** tested under Ind AS 36 — they have their own impairment/write-down rules:

Reason why they are not Covered

Inventories

Governed by Ind AS 2 — tested at lower of cost and net realisable value.

Financial Assets

Trade receivables, loans, bonds — governed by Ind AS 109 (Expected Credit Loss model).

Deferred Tax Assets

Governed by Ind AS 12 — separate recoverability assessment applies.

Employee Benefit Assets

Assets arising from employee benefits — governed by Ind AS 19.

Investment Property at Fair Value

Investment Property measured at Fair Value model — not tested under Ind AS 36.

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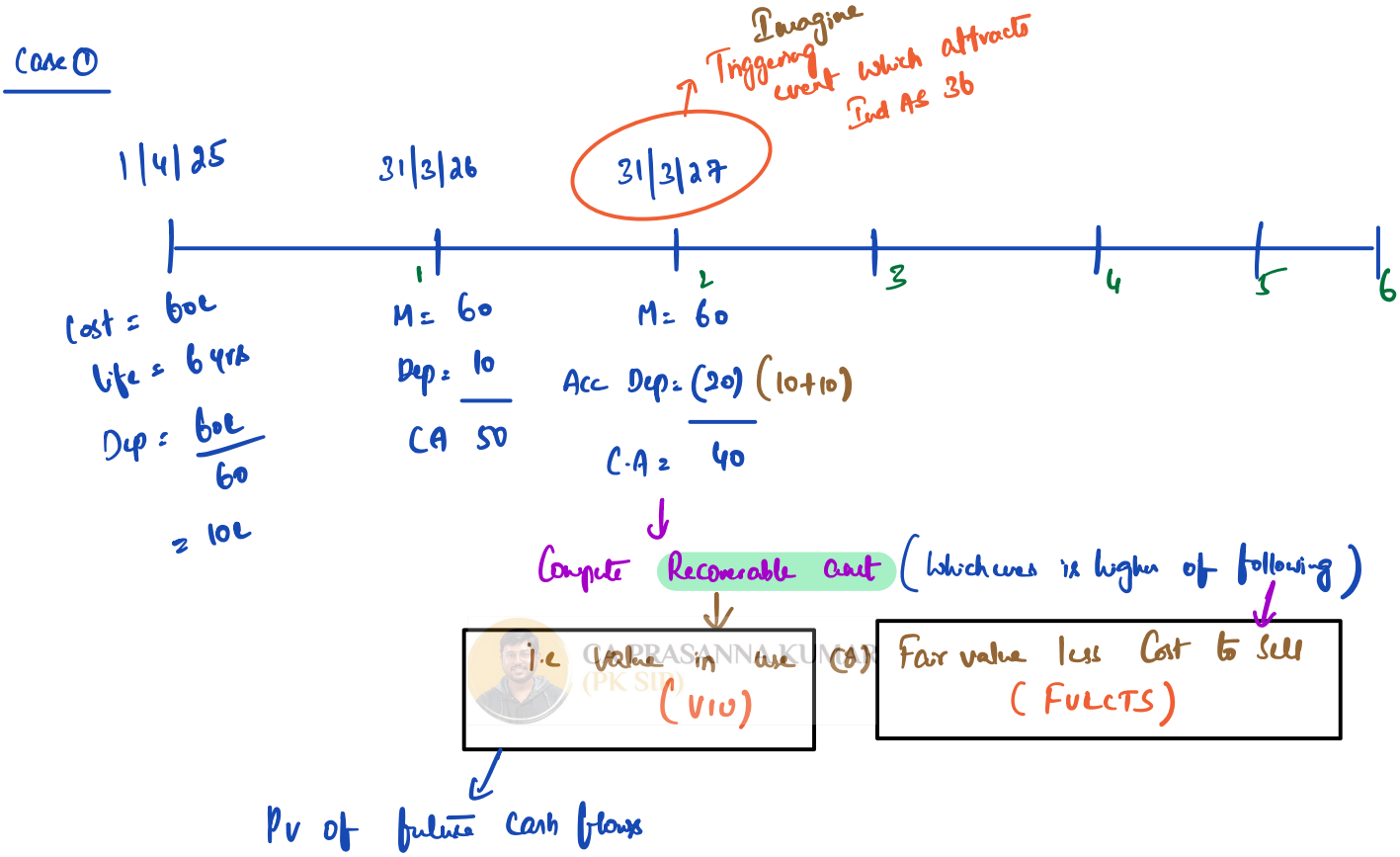
Case ①



(i) Value in use

Year (left = 4yrs)	CF	PVF @ 10%	PV (DCF)
1	600000	0.909	545400
2	400000	0.826	330400
3	400000	0.751	300400
4	400000 + Salvage value if any	0.683	273200
			1449400

(ii) FVLCTS ⇒ Sale price = 3000000
(-) Cost to sell = (200000)
2800000

Higher of 2800000 (&) 1449400 ⇒ 2800000 Recoverable amt.

C.A = 40000000

Impairment loss = 1200000

↓

Impairment loss	1200000	
TO Machinery		1200000

→ will go to P/L

* So Revised C.A of Machinery = 2800000

Student doubt → Pk Sir what if Asset value ↓ to 4200000 from 40000000

↓

Pk Sir ans → First of 'Q' itself is wrong, Ind AS 36 is only triggered when there is sudden fall in value & Standard says only ↓ in value should be considered. Ignore ↑ in value.

Scope of Ind AS 36 (applicable)

① Ind AS 16, 38, 40

② Goodwill acquired in Business Combination

③ F.A classified as Inv in Subsidiaries, Associate, J.V
(Ind AS 110, 28, 111)

Meaning of impairment loss — what exactly is "impaired"?

An asset is impaired when:

Carrying Amount > Recoverable Amount

So impairment loss is the "excess" carrying value that cannot be recovered:

$$ImpairmentLoss = CarryingAmount - RecoverableAmount$$

Financial statements should not show an asset at more than what it can realistically generate back (either by use or by sale). Ind AS 36 is basically the "reality check."

Example:

- Carrying amount of machine = ₹12,00,000
- Recoverable amount (best estimate of what you can recover) = ₹9,50,000
- Impairment loss = ₹12,00,000 – ₹9,50,000 = ₹2,50,000

After impairment, you reduce the machine's carrying amount by ₹2,50,000 so the balance sheet reflects the recoverable value.

Indications of impairment — when should you suspect impairment?

(Doubt Only) Not Confirmation.

Ind AS 36 gives indicators that act like warning signals. If they exist, you should test for impairment (as per the general rule later).

External indicators (outside the company)

1. Adverse technological/market/economic/legal changes
2. Significant decline in the asset's market value
3. Increase in market interest rates affecting discount rate and lowering recoverable amount

Internal indicators (inside the company)

1. Obsolescence or physical damage
2. Significant adverse change in how the asset is used (idle, discontinued, restructuring, disposal plan, etc.)
3. Internal reporting shows performance is/will be worse than expected

↳ Int rate ↑ → discount rate ↑ → discount cash flows of the asset ↓ → VIU ↓

External indicators explained

Adverse technological/market/economic/legal changes

Logic: External environment can reduce demand or reduce ability to operate profitably.

Example: A new law bans a chemical ingredient. Your production line becomes less useful → impairment indicator.

Significant decline in the asset's market value

Logic: If the market says the asset is worth far less, your balance sheet value might be overstated.

Example: Property prices in an area crash due to infrastructure changes; your investment property value may need impairment assessment.

Increase in market interest rates

Logic: Higher discount rate → lower present value of future cash flows → lower recoverable amount.

Example: If interest rates rise sharply, the present value of future cash inflows from a project drops, potentially triggering impairment.

Internal indicators explained

Obsolescence or physical damage

Example: A machine is damaged in a fire; even after repairs, efficiency drops—recoverable amount may be lower.

Significant adverse change in how the asset is used

Logic: If you're not using it as planned, it can't generate the expected benefits.

Example: You built a factory line for Product A, but you stop Product A due to poor demand. The line becomes idle → indicator.

Internal reporting shows worse performance

Logic: Budgets, MIS, segment reports are early evidence that future cash generation won't match assumptions.

Example: Actual cash flows from a CGU are consistently below budget, and forecasts are revised downward → indicator.

Frequency of impairment testing — how often do we test?

General rule

You test impairment when there is any indication that the asset is impaired.

Logic: Ind AS 36 doesn't want companies to do heavy valuation work every year for every asset unnecessarily. So the default approach is "test only when there's a reason."

Exception — mandatory annual testing (even if no indication exists)

Ind AS 36 requires at least annual impairment testing for these three items:

1 Intangible asset with indefinite useful life

Logic: If life is indefinite, you are not depreciating it. Without depreciation, carrying amount stays high unless impairment is tested regularly.

2 Intangible asset not yet available for use (under development)

Logic: It's not generating cash flows yet, so there's higher risk that the project may fail or benefits may reduce.

3 Goodwill acquired in a business combination

Logic: Goodwill is especially judgement-based and not depreciated, so annual impairment testing is compulsory.

Measurement of Recoverable Amount

Recoverable Amount of an asset is the **higher of**:

Fair Value less Cost of Disposal

OR

Value in Use

Why "higher of"?

Because Ind AS 36 is basically asking: "What is the best amount you can recover from this asset?"

You can recover value in two practical ways:

1. Sell it (so use Fair Value less disposal costs), or
2. Use it to generate cash flows (so use Value in Use).

Naturally, you pick whichever is more recoverable (higher).

Fair Value less Cost of Disposal (FVLCTS)

Fair Value — meaning (with the exact logic)

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

Logic in simple words:

- It's not a distress sale price.
- It's not a forced liquidation value.
- It's the "normal market price" between knowledgeable buyers and sellers on that date.

Example: If similar second-hand machines are selling in the market for ₹18 lakh under normal conditions, that market-based ₹18 lakh is a strong indicator of fair value.

Cost of Disposal / Cost to Sell — meaning

These are incremental costs directly attributable to the disposal of an asset.

Meaning of "incremental + directly attributable": Costs that arise only because you are selling the asset. If you don't sell, you wouldn't incur them.

Examples of Cost of Disposal

- Transaction costs like legal costs & stamp duty
- Costs of removing the asset
- Selling expenses
- Dismantling cost
- Packaging costs, etc.

Important note

"Valuation fee incurred is not cost of disposal."

Why valuation fee is NOT included (logic): Valuation fee is to measure fair value, not a cost that is necessarily required to sell the asset. It's more like an assessment cost, not a disposal cost.

Mini Example (FVLCTS)

Fair value (market price) of land	Legal + stamp + broker + other direct selling costs	FVLCTS
₹1,00,00,000	₹3,00,000	₹97,00,000

Value in Use (VIU)

Value in Use is the present value of future cash flows expected to be derived from an asset.

Why "present value"?

Because cash flows happen in the future, and money today is more valuable than money later. So we discount future cash flows to today's value.

Two key decisions to determine VIU

Ind AS 36 highlights that 2 key decisions are involved:

1. Estimation of expected future cash flows
2. Discount rate to be used

Robotic technology ↓ 40%.

Board approval ✗

Estimation of expected future cash flows

Remember this

Includes (must include these cash flows)

Revenue / Saved outflow

1. **Cash inflows from the continuing use of the asset**
   Example: Sales receipts generated using the machine.
2. **Cash outflows incurred to generate cash inflows** (including cash outflows to prepare the asset for use)
   Logic: To earn inflows, you must spend some outflows (raw materials, power, necessary repairs, setup costs, etc.).
   Expenses
   Example: If a machine must undergo a mandatory calibration/service to run, that cash outflow is included.
3. **Net cash flows from disposal of the asset at end of useful life (Residual value)**
   Example: Scrap value / resale value at the end of its life.

Residual value

Ignore

Excludes (must NOT include these)

1. **Future cash inflows/outflows from a future restructuring plan to which the entity is not yet committed**
   An example: future expectation to invest in new technology which will reduce costs of manufacturing.
   Logic: If management is only thinking about restructuring but hasn't committed, those benefits/costs are uncertain. VIU must be based on the asset in its current condition + committed plans, not "hope".
2. **Interest & tax expense**
   Logic: VIU is about operating cash flows from the asset. Interest and tax depend on financing structure and tax position (not the asset's pure operating performance). Also, the discount rate used here is specified as pre-tax (next point).

Cost of Capital

Discount rate already captures cost of capital which includes cost of debt.

Discount rate to be used (bcoz CFIs taken are pre tax)

Discount rate should be **pre-tax market rate (pre-tax cost of capital)**.

Logic:

- If you're discounting cash flows, the rate should reflect market returns expected for similar risk.
- Since the standard says pre-tax, you keep it consistent with pre-tax measurement logic in VIU.

CFIs → pre tax
Disc rate → pre tax

Note about forecast period (important)

Long ka exam

Cash flow projections should be based on forecasts covering a **maximum period of 5 years**, unless a longer period can be justified.

Logic: Forecasts beyond 5 years become highly uncertain. Ind AS 36 allows longer only when you have strong justification (e.g., long-term contracts, stable regulated cash flows, etc.).

Foreign currency future cash flows

If future cash flows are in a foreign currency, then:

1

Step 1

First compute the present value using the foreign currency discount rate

2

Step 2

Convert that present value into rupees using the spot exchange rate on the date of VIU calculation

Logic: You discount in the same currency because the discount rate must match the currency cash flows (currency + inflation + risk expectations are embedded). Then you translate the final present value to INR at the current spot rate for reporting.

Circumstances where FVLCTS or VIU cannot be calculated

(1) If VIU is available but FVLCTS cannot be determined

Then **Recoverable Amount = Value in use of the asset**.

Meaning: Sometimes there is no reliable market to estimate fair value (e.g., very specialised asset with no active market), but you can still estimate future cash flows from use.

(2) If FVLCTS is available but VIU cannot be determined

Then **Recoverable amount of such an asset cannot be determined, and impairment of such asset will be done in CGU**.

Logic: If the asset doesn't generate independent cash flows, you cannot compute VIU for it alone. So you test impairment at the level of a Cash Generating Unit (CGU) where independent cash inflows exist.

Treatment of Impairment Loss

What the standard says (core rule)

Impairment loss is recognised in the **P&L A/c**.

But there is an important exception when Revaluation Surplus exists

If there is any Revaluation Surplus balance in OCI, then:

- Recognise impairment loss in OCI first, to the extent of that Revaluation Surplus, and
- Any remaining impairment loss goes to P&L A/c.

Logic (why split between OCI and P&L?)

The reasoning

- If the asset was earlier revalued upward, that "extra value" was parked in OCI (Revaluation Surplus), not in P&L.
- So when the asset value falls, you first reverse the earlier OCI gain (up to the balance available).
- Only the "excess fall" beyond that goes to P&L.

Example

- Carrying amount includes revaluation surplus of ₹5 lakh sitting in OCI.
- Impairment loss computed = ₹8 lakh.
- **Treatment:**
  - ₹5 lakh → OCI (reduce Revaluation Surplus)
  - Remaining ₹3 lakh → P&L (real loss beyond the earlier revaluation gain)

Journal Entries

(A) Recognising impairment (reducing the asset)

Impairment Loss A/c	Dr.	xxx	
To Asset A/c			xxx

Meaning: You record the impairment loss and directly reduce the asset's carrying amount.

(B) Transferring impairment loss to OCI/P&L based on Revaluation Surplus availability

Revaluation Surplus A/c	Dr.	(upto Balance, if any)	
P&L A/c	Dr.	(Remaining)	
To Impairment Loss A/c			xxx

Meaning:

- Use OCI (Revaluation Surplus) first if available,
- rest goes to P&L.

Note after recognition

Revised carrying amount

$$RevisedCarryingAmount = Carryingamountbeforeimpairmentloss - Impairmentloss$$

Depreciation after impairment

Depreciation should be charged considering the asset's revised carrying amount.

Logic: Once you reduce the asset's carrying amount, the depreciable base becomes lower, so future depreciation should be computed on the revised carrying amount.

> **Example:** If a machine's carrying amount becomes ₹9,50,000 after impairment, you don't keep depreciating based on the old amount like ₹12,00,000.

Cash Generating Unit (CGU)

Definition

A cash-generating unit is the **smallest identifiable group of assets capable of generating independent cash inflows**.

Why do we need CGU testing (practical reason)?

Sometimes an individual asset's recoverable amount cannot be determined because:

- The asset does not generate independent cash flows, so
- VIU cannot be determined, and
- therefore, no recoverable amount can be computed for that individual asset.

So in such cases, the entity must determine the recoverable amount of the CGU to which the asset belongs.

> **Example:** A single machine in a production line may not generate cash inflows on its own. The entire line / plant generates cash inflows from selling finished goods → so you test impairment at CGU level.

Why goodwill and corporate assets are tested only at CGU level

Goodwill and Corporate assets (e.g., HO office building) cannot be tested individually because they do not generate independent cash flows.

Instead, they contribute to the cash flows of other assets, so their impairment assessment is done at the CGU level only.

Logic

- Goodwill is like "expected future benefits" from the business purchase—no separate cash inflow.
- Corporate assets support multiple units (HR, finance, HO building)—they enable operations but don't earn cash separately.

CGU

(Group of assets that generates independent cash flows)
↓
Cash flows together

Case ① CGU without Goodwill & Corporate Assets.

Allocate Impairment loss in ratio of Carrying amt of assets

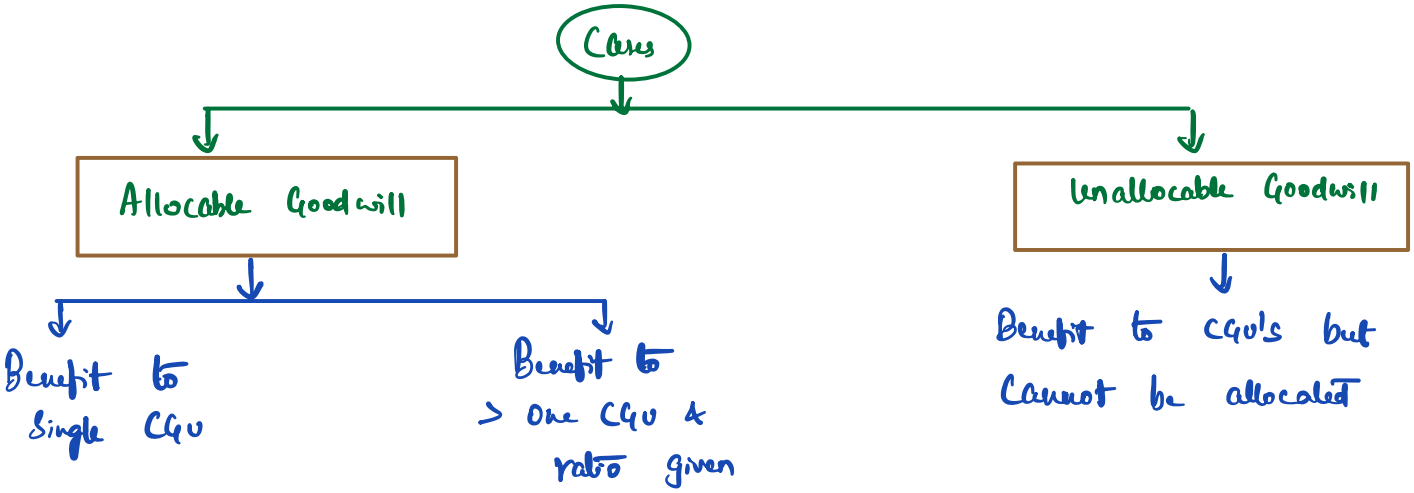
Eg **PK sir classes set up**

	Camera	laptop	Mike	Total
Carrying amount (given)	400	800	200	1400
Recoverable amount (given)				1120
Impairment loss	(80) $(280 \times \frac{400}{1400})$	(160) $(280 \times \frac{800}{1400})$	(40) $(280 \times \frac{200}{1400})$	280
Revised Carrying amount	320	640	160	

↓
Ratio of Carrying amount
2 : 4 : 1

Case 2 Goodwill

(Allocated to CGU's as Individual Impairment test not possible)



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↓

Allocate Impairment loss to that Single CGU as 1st to G/w, then remaining loss in ratio of C.A of other assets

↓

Allocate G/w to CGU in ratio given in Q, then base treatment as Single CGU

×

↓

Impairment test in 2 stages

↓

Stage ① Test Individual CGU's (without G/w)

Stage ② Test all CGU's + G/w together

(Allocate entire Impairment loss to G/w as Individual CGU's already impaired)

Eg:- Benefit to Single CGU (only to CGU 'A')

CGU 'A'	Camera	Laptop	Mike	G/w	Total
Carrying amount (Given)	400	800	200	240	1640
Recoverable amount (Given)					1260
Impairment loss	(40)	(80)	(20)	(240)	380
	$140 \times \frac{400}{1400}$	$70 \times \frac{800}{1400}$	$70 \times \frac{200}{1400}$		1st G/w 240, Rem 140
Revised C.A	360	720	180	NIL	Ratio of C.A

Case B	Projector	Ipad	Furniture	Total
Carrying amount (Given)	600	400	800	1800
Recoverable amount (Given)				2200

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Impairment loss — NIL

Since R.A > C.A

Eg ② Benefit in > one CGU & ratio given

Glw of 120 allocated to CGU 'A' & CGU 'B' in ratio of 2:5

240 → A (2/8) 90
B (5/8) 150

CGU 'A'	Camera	Laptop	Mike	Glw	Total
C.A (given)	400	800	200	90	1490
R.A (given)					1330
Impairment loss	(20)	(40)	(10)	(90)	160
	70 × 2/7	70 × 4/7	70 × 1/7		
Revised C.A	380	760	190	NIL	

1st Glw 90 → Rem ratio of 2:4:1

CGU 'B'	Projector	Ipad	Furniture	Glw	Total
C.A (given)	600	400	800	150	1950
R.A (given)					2200
Impairment loss					NIL

Since R.A > C.A

Eg ③ Unallocable Glw

Stage ① Test Individual CGU's (without Glw)

CGU A	Camera	laptop	Mike	G/w	Total
C.A (given)	400	800	200	X	1400
R.A (given)					1260
Impairment loss	(40)	(80)	(20)		140
Revised C.A	360	720	180		↓ Ratio of C.A i.e 2:4:1

CGU B	Projector	Ipad	Furniture	G/w	Total
C.A (given)	600	400	800	X	1800
R.A (given)					2200
Impairment loss					NIL
					R.A > C.A

Stage ② Combine CGU 'A' & (CGU 'B' + G/w)

	CGU 'A' [Camera, laptop, Mike]	CGU 'B' [Projector, Ipad, Furniture]	G/w	Total
C.A (given)* (After Impairment)	1260 (360 + 720 + 180)	1800	240	3300
R.A (given)				3100
Impairment loss			(200) 40	200 ↓

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Allocated to CGU only

Here Impairment loss generally will not exceed 240

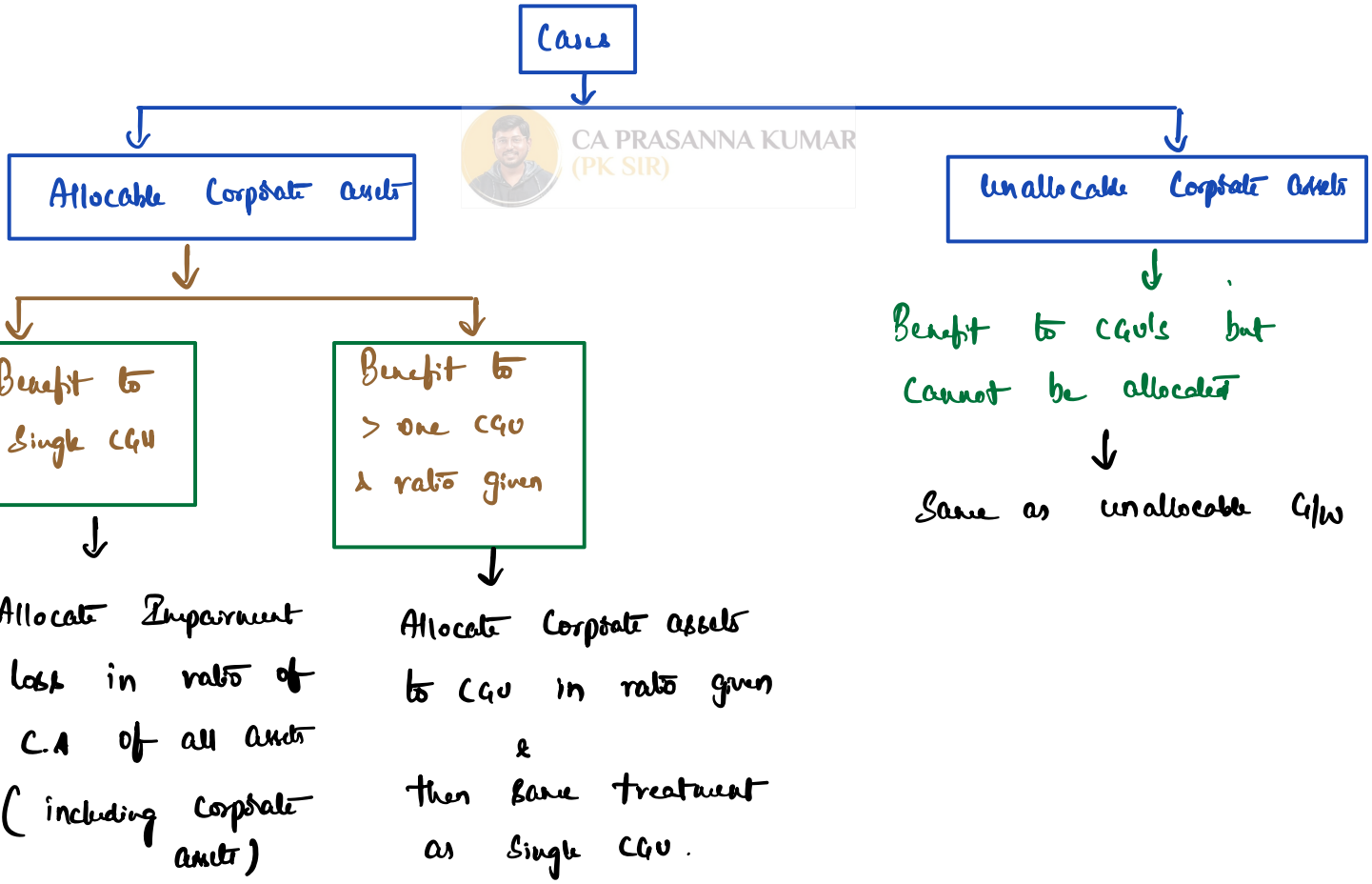
Stage 2 is only for CGUs

Impairment as CGU 'A' & 'B' already Impaired

Case ③ Corporate assets

Administrative assets like H.O Building, Corporate office, Research unit etc

(Individual Cash flows are not realised so no VIU & hence no Individual Impairment test)



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Eg ① Benefit to Single CGU (only to CGU 'A')

CGU 'A'	Camera	laptop	Mike	Corporate asset	Total
C.A (given)	400	800	200	200	1600
R.A (given)					1280
Impairment loss	(80)	(160)	(40)	(40)	320
	320 × 2/8	320 × 4/8	320 × 1/8		↓ X GW
Revised C.A	320	640	160	160 Allocate in ratio of CA	
				2 : 4 : 1 : 1	

CGU 'B'	Projector	Ipad	Furniture	Total
C.A (given)	600	400	800	1800
R.A (given)				2200
Impairment loss				Nil (R.A > C.A)

Eg ② Benefit in > one CGU & ratio given

Corporate asset of 100 allocated to CGU 'A' & CGU 'B' in ratio of 2 : 3

⇒ 200 → A 2/5 → 80
→ B 3/5 → 120

CGU 'A'	Camera	laptop	Mike	Corporate asset	Total
C.A (given)	400	800	200	80	1480
R.A (given)					1258
Impairment loss	(60)	(120)	(30)	(12)	222
	222 × 20/74	222 × 40/74	222 × 10/74	222 × 4/74	↓

Revised C.A	340	680	170	68	Ratio of C.A 20 : 40 : 10 : 4

CGU 'B'	Projector	Ipad	Furniture	Corporate Asset	Total
C.A (given)	600	400	800	120	1920
R.A (given)					2200
Imp loss					NIL

Eg ③ — Unallocable Corporate Assets

Stage ① — Test Individual CGU's (without Corporate Assets)

CGU 'A'	Camera	Laptop	Mike	Corporate asset	Total
C.A (given)	400	800	200	×	1400
R.A (given)					1260
Imp loss	(40)	(80)	(20)		140
Revised C.A	360	720	180		Ratio of 2 : 4 : 1

CGU 'B'	Projector	Ipad	Furniture	Corporate Asset	Total
C.A (given)	600	400	800	×	1800
R.A (given)					2200
Imp loss					NIL

(R.A > C.A)

Stage 2 — Combine CGU 'A' & CGU 'B' + Corporate Assets

	CGU 'A' (Camera, laptop, Mike)	CGU 'B' (Projector, Ipod, Furniture)	Corporate Asset	Total
C.A (given)	1260 (360 + 720 + 180)	1800	240	3300
R.A (given)				3100
Imp loss			(200)	200
			40	

Ratio ×

Entirely to Corporate assets.

Q 8, 20, 21, 23, 6, 7, 38

7 → Ignored by ICAI

Q 14 – 19 H.W

22, 29–31

Allocation of Goodwill and Corporate Assets to multiple CGUs for impairment testing

01

Allocate Goodwill & Corporate assets to multiple CGUs based on the ratio provided in the question.

02

Q 23

If the question specifies allocation on "pro rata basis", then allocate to multiple CGUs in the ratio of: **(Carrying Amount of Other Assets in CGU × Useful Life of CGU)**

03

Any Unallocable goodwill/corporate assets will be subject to a different impairment treatment.

Logic (why a ratio like "carrying amount × useful life"?):

- A CGU with bigger asset base and longer benefit period is assumed to consume/support more of the corporate asset/goodwill benefits.
- So allocation tries to match "benefit consumption" with the CGU.

Impairment loss for CGU = Carrying amt of CGU − Recoverable amt of CGU

Logic: Same impairment idea, just applied at a group level.

Calculation of Carrying Amount of CGU

C.A of CGU

(4u) (CFIs) & ← R.A of CGU

To compute Carrying Amount of CGU, add:

Carrying Amount of PPE in CGU (16)	xxx
Carrying Amount of Intangible Assets in CGU (38)	xxx
Carrying Amount of Current Assets in CGU	xxx
Carrying Amount of Goodwill allocated to CGU	xxx
Carrying Amount of Corporate Assets allocated to CGU	xxx
Total Carrying Amount of CGU	**xxx**

If they are part of CGU operations like Inventory, Trade rec But It cannot be tested Individually.

Logic: You're comparing the CGU's total "book value" with its recoverable amount. So you must include all asset components (including goodwill/corporate assets allocated to it).

Order of allocation of impairment loss to assets in a CGU

When a CGU is impaired, the impairment loss is allocated in this order:

1

(i) First, reduce goodwill allocated to the CGU

First, reduce the carrying amount of goodwill allocated to the CGU.

Logic: Goodwill is the "most fragile" asset—there's no separate market or independent cash flow, and it represents expected future benefits. So Ind AS 36 makes you hit goodwill first.

2

(ii) Then allocate remaining loss to other assets

Remaining loss is allocated to other assets (including corporate assets) on pro-rata basis in the ratio of their carrying amount, except those outside the scope of Ind AS 36 (such as trade receivables, investments, inventory, etc.)

Logic (why pro-rata by carrying amount?): If multiple assets together generate the CGU's cash flows, then the "pain" of impairment is shared in proportion to their book values (unless the asset is outside Ind AS 36 scope). & life of the asset.

Quick example of pro-rata allocation

If, after writing down goodwill, ₹10 lakh impairment is left and there are two assets in CGU (A=₹40 lakh, B=₹60 lakh), allocate ₹4 lakh to A and ₹6 lakh to B.

Important notes

Point 1

If any asset is tested individually and the same asset is also included in the CGU, then no impairment loss will be allocated to that asset in CGU, because its individual impairment test is already conducted.

Logic: Don't double-count impairment. If you already reduced that asset based on its own recoverable amount, you shouldn't reduce it again through CGU allocation.

Example: A building is tested individually (because it has its own independent cash inflows via rentals) and is also part of a CGU. If it's already written down individually, CGU impairment allocation should not hit it again.

Point 2

A CGU does not include any liability, but a liability may be included if the recoverable amount of CGU cannot be determined without considering such liability. Eg: Provision for Decommissioning / Restoration

Logic: Normally CGU = assets only. But sometimes an unavoidable obligation is so tightly linked to the CGU that you can't realistically measure recoverable amount unless you consider it.

Unallocated goodwill / unallocated corporate assets

It may happen that an entity has some Unallocable goodwill / Unallocable Corporate Assets which cannot be allocated to CGUs directly. In this case, impairment testing for the entity as a whole is done as follows:

Two-step approach

1	2
First conduct impairment test of all individual CGUs without goodwill/corporate assets	Then conduct impairment test of Group CGU with goodwill/corporate assets

Logic:

- Step 1 ensures each CGU is impaired on its own merit first.
- Step 2 then checks whether, after that, the overall entity still has impairment due to the unallocable items.

P	CGU 1	CGU 2	CGU 3	Unallocable Goodwill (or) Corporate Assets	Total
Carrying amount	xx	xx	xx	xx	xx
(-) Impairment loss on each CGU	(xx)	(xx)	(xx)	—	(xx)
Revised C.A of each CGU after Impairment	xx	xx	xx	xx	xx (A)
Recoverable amount of Entity as a whole					xx (B)

The two lines after the table (A vs B rule)

If **A > B**, then this impairment loss will be borne by Unallocable Goodwill or Unallocable Corporate Assets only, because CGUs are already impaired in earlier steps.

Logic:

- CGUs have already taken impairment in Step 1.
- Any further shortfall at the overall entity level must relate to what wasn't allocated earlier—i.e., the unallocable goodwill/corporate assets.

Goodwill acquired in business combination (Partial goodwill)

Under Ind AS 103 "Business Combinations", an entity has a choice between two methods:

- NCI @ PSNA Method, and
- NCI @ Fair Value Method

If NCI is measured using the Proportionate Share of Net Assets (PSNA) method, then the portion of goodwill related to NCI, though unrecognised, is also taken into account whilst calculating impairment loss — i.e., gross up the carrying amount of goodwill to include goodwill attributable to NCI.

Formula

$$UnrecognisedGoodwillattributabletoNCI = PartialGoodwill \times \frac{NCIShare}{Parent'sshare}$$

This adjusted carrying amount is then compared with the recoverable amount to determine whether the CGU is impaired.

Guidance on the allocation of impairment losses

The impairment loss is allocated between parent and NCI in proportion of their stake.

If an impairment loss attributable to NCI relates to goodwill that is not recognised, then only impairment loss of parent's goodwill is recognised.

Logic (what this is trying to achieve)

- In consolidation, the CGU (or business) belongs partly to Parent and partly to NCI. So impairment is shared in the ownership ratio.
- But if you are following partial goodwill (PSNA) method, NCI's goodwill is not recognised in books. So you cannot "book" impairment against something that isn't recognised—hence only parent's recognised goodwill gets impaired.

Example (quick): Parent 80%, NCI 20%. Total impairment loss in CGU = ₹10 lakh. Normally: Parent bears ₹8 lakh, NCI bears ₹2 lakh. But if ₹2 lakh is attributable to NCI goodwill that was never recognised, you don't record that part against goodwill; only parent's recognised goodwill impairment is recorded (as per the note above).

Reversal of impairment loss (tq below)

Impairment loss recognised in earlier years can be reversed for an asset **(except Goodwill)**, if any indications exist that impairment loss has reversed/decreased.

Logic:

- Assets can recover (market improves, technology improves, better performance, etc.), so the earlier write-down may no longer be valid.
- Goodwill is excluded from reversal (Ind AS 36 rule highlighted here: "except goodwill").

Indications of reversal of impairment loss

External indicators

- Favourable effect on entity due to technological, market, economic or legal environment
- Asset's market value has increased significantly
- Market interest rates have decreased during the period affecting the discount rate and increasing the asset's recoverable amount.

Logic + examples:

- New regulation supports your product → future cash flows improve.
- Market resale price of the asset rises sharply → FVLCTS rises.
- Interest rates fall → discount rate falls → present value (VIU) increases.

Internal indicators

- Significant changes with favourable effect on entity & the manner of use of an asset.
- Economic performance of an asset will be better than expected.

Logic + examples:

- You changed production process and the asset is now used more efficiently.
- Actual results beat budgets and future forecasts improve.

Reversal of impairment loss for individual asset

Impairment Loss recognised as an asset in earlier years can be reversed if on the date of reversal **Recoverable Amount > Carrying Amount**.

The carrying amount at which asset should be shown after reversal is: **Lower of**

1. Recoverable Amount of Asset on date of reversal of Impairment Loss and
2. Carrying Amount of that asset on the Reversal date if it was never impaired.

Formula:

$$ReversalAmount = Carryingamountinbooks - Carryingamountafterreversal$$

Logic (why "lower of" is important): This prevents you from "over-reversing." Even if the recoverable amount becomes very high, the asset's carrying amount after reversal cannot exceed what it would have been if impairment never happened (i.e., you can't create a new inflated carrying amount through reversal).

Alternative: Calculation of maximum reversal of impairment loss (table)

Carrying amount of Asset Net of Depreciation (If there was no Impairment)	xxx
Less: Carrying amount of Asset Net of Depreciation (after Impairment)	(xxx)
Maximum Reversal of Impairment Possible	**xxx**

Logic: This gives a hard cap on reversal: you can reverse only up to the "gap" between (i) the no-impairment carrying amount and (ii) the current carrying amount after impairment.

Treatment of reversal and journal entries

Treatment

Reversal of Impairment Loss is recognised in **P&L A/c**.

However, if Impairment Loss was recognised in OCI earlier then Reversal should also be recognised in Revaluation Surplus (OCI) to the extent recognised earlier and remaining to P&L A/c.

Logic: This mirrors the impairment treatment:

- If earlier loss reduced OCI (revaluation surplus), then reversal restores OCI first (to that extent).
- Any additional reversal goes to P&L.

Journal Entry

```
Asset A/c                          Dr.   xxx
   To Impairment Loss Reversal A/c          xxx

Impairment Loss Reversal A/c       Dr.   xxx
   To Revaluation Surplus A/c              (upto IL recognised earlier)
   To P&L A/c                              (Remaining)
```

Revised carrying amount

$$RevisedCarryingAmt. = Carryingamountbeforereversal + ReversalofImpairmentloss$$

Depreciation should be charged considering asset's revised carrying amount.

Important note on reversal restrictions

Key note: Even if recoverable amount becomes higher than carrying amount, impairment loss cannot be reversed if the increase is only because of the unwinding of discount on future cash flows (i.e., PV increases merely because time has passed and the cash flows are now closer).

Logic (why this restriction exists)

If nothing actually improved (no better performance, no better market, no better prospects) and the "increase" is only because one year has passed, then reversing impairment would artificially inflate asset values. So Ind AS 36 blocks reversal in that situation.

> **Example:** You estimated future cash flows and discounted them. Next year, those same cash flows are 1 year closer, so PV automatically rises even if business hasn't improved. That rise alone is not a valid reason to reverse impairment.

Reversal of impairment loss of CGU

Reversal of impairment loss on a CGU is very similar to reversal of impairment loss of individual assets.

Logic: A CGU is just a "group level" version of the same concept: If the CGU's recoverable amount improves (due to real indicators), you can reverse earlier impairment (but still following limits and allocation rules).

Maximum possible amount of reversal of impairment loss

$$Maximum possible reversal = Recoverable Amount of CGU on date of reversal - Carrying Amount of CGU on date of reversal$$

Logic: This tells you the upper ceiling of how much reversal is possible based on the gap between what the CGU is worth now (recoverable amount) and what it is currently carried at.

Treatment

1. Reversal should be allocated to the individual assets of the CGU (excluding goodwill) on a pro-rata basis in the ratio of their carrying amounts on the date of reversal.
2. After the reversal, the carrying amount of these assets should not exceed the amount they would have had on the reversal date if no impairment had been recognised earlier.

Logic:

- Exclude goodwill: Goodwill impairment is not reversed (same principle as earlier).
- Pro-rata allocation: Since CGU assets jointly generate cash flows, reversal benefit is shared by assets based on their carrying amounts.
- Cap ("no more than if never impaired"): Prevents "over-reversal" and stops you from boosting asset values beyond what normal depreciation would have produced.

Example: Reversal amount for CGU (excluding goodwill) = ₹6 lakh. Two assets in CGU: Asset A carrying = ₹10 lakh, Asset B carrying = ₹20 lakh. Total = ₹30 lakh. Allocate reversal: A gets ₹2 lakh, B gets ₹4 lakh — but if A's "no-impairment carrying amount cap" allows only ₹1.5 lakh, then A is limited to ₹1.5 lakh and the balance reversal would go to other eligible assets (subject to their caps).

Eg

Reversal of Impairment loss

1/4/x1 ⇒ Cost = 1000 (life = 10 yrs) $\left(\frac{1000}{10}\right)$

Dep x1 – x2 = (100)

Dep x2 – x3 = (100)

Indication of Impairment: C.A 31/3/x3 = 800; R.A (given) = 640 → Impairment loss = 160 (P/L A/c)

Revised C.A 31/3/x3 = 640 (life = 8 yrs) (640/8) → Dep = 100 (20 saving)

(–) Dep x3 – x4 = (80)

560

(–) Dep x4 – x5 = (80) → Dep = 100 (20 saving)

480

Indication of Reversal: C.A 31/3/x5 = 480; R.A (given) = 750

Rev of Imp loss = 120

Revised C.A = 480 + 120 = 600

Actual Reversal of Imp loss = 270

Max Reversal of Imp loss = ~~160~~ 120 (160 – 20 – 20)

Max Reversal of Impairment loss

C. A 31/3/x5 (If no Impairment) [1000 – (100 × 4)] 600

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(-) C.A 31/3/x5 (after considering Impairment)		(480)
		120

Case ② If R.A on 31/3/x5 is 550

C.A = 480

R.A = 550

Actual reversal = 70

Maximum reversal = 120

} Reversal = 70

Rev C.A = 480 + 70 = 550

Q (27), (25), (26)

Eg Reversal of Impairment loss of CGU

CGU : A

	Other Assets (laptop, Camera, Mike)	Goodwill	Total
Cost (1/4/x1)	1500000 (life = 10yrs)	200000	1700000
(-) Dep x1 - x2 ($\frac{15L}{10}$)	150000		
C.A 31/3/x2	1350000	200000	1550000
R.A			1170000 (given)
Impairment loss	(180000)	(200000)	380000
Revised C.A (31/3/x2)	1170000 (life = 9yrs)	NIL	
(-) Dep x2 - x3	130000		
C.A 31/3/x3	1040000	NIL	1040000
R.A			1500000 (given)

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Impairment loss reversal	160000		160000 (?)
Revised C.A	1200000	Nil	1200000

? ⇒ Actual reversal = 1500000 − 1040000 = 460000

Maximum reversal (W.N:1) = 160000

Reversal permitted 160000

* Reversal of Impairment loss of Glw not permitted as it leads to showing Self generated Glw which is not allowed.

W.N:1 Maximum Reversal

C.A of CGU (if no Impairment) (excluding Glw)	1200000
15L − 1.5L − 1.5L	
(−) C.A of CGU (with Impairment)	1040000
	160000

Q (10), (32), (31)