Corporate Capital Ventures

"WORLD HAS SURMOUNTED ALL DISASTERS BEFORE AND WILL DO IT THIS TIME TOO.."

Impairment Testing

It's a New financial reporting requirement
Every Acquirer company should do
It is Assessment of Impairment in value of
any asset at reporting period end
Ind-As 36 - Impairment of Loss provide framework

IND AS 36: IMPAIRMENT OF ASSETS

Meaning of Impairment

As per Ind-As 36 if the carrying amount of any asset is more than amount recoverable from such assets through use or sale of asset, then such asset is said to be Impaired.

In Terms of Ind-As 36, a Company is required to test an asset for impairment at the end of each reporting period if there is any indication of impairment of that asset exists. In following cases the company shall annually test the asset for impairment even if there is no sign of impairment exist:

- Intangible asset with indefinite useful life;
- Intangible asset not available for use;
- Goodwill acquired in business combination.

Indicators of Impairment

Some of the Indicators of impairments are as under:

Significant change in the technological, market, economic or legal environment in which the Company operates or in the market to which an asset is dedicated, which has adverse effect on the Company.

- Increase in the interest rates, Market return which may affect the discount rate used in calculating the Value in use or decrease the recoverable amount;
- The carrying amount of the net assets of the entity is more than its market capitalization;
- Obsolescence or physical damage of an asset;
- Significant changes have taken place or are expected to take place in the near future with an adverse effect on the entity.
- The economic performance of an asset is, or will be, worse than expected.

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Recoverable Amount: The recoverable amount of an asset is the greater of its 'fair value less costs to sell' and its 'value in use'. The recoverable amount is determined for individual assets. 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. However, if an asset does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs. A CGU is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairment Loss: An impairment loss is recognised to the extent the carrying amount of the asset exceeds its recoverable amount. For non- revalued assets, impairment losses are recognised as an expense immediately in profit or loss. If the impaired asset is a revalued asset under IAS 16 or IAS 38, the impairment loss is treated as a revaluation decrease and recognised directly in other comprehensive income. To the extent the impairment loss exceeds the revaluation surplus, the remaining loss is recognised as an expense immediately in profit or loss. In recognising an impairment loss, the carrying amount of the asset will never be reduced below the higher of its individual recoverable amount and zero.

Importance: The value attributed to assets may affect not only the company's reported financial position, but also its reported performance. Impairment testing helps in tracking the performance of the Company.

Our Role: CCV has a team of experienced Professional from various discipline having considerable experience in conducting the impairment testing study in most effective and efficient manner.