

Ind AS 36 – Impairment of Assets

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Impairment testing – Objective and Scope

Objective and scope

Objective

- Prescribe procedures to ensure that **assets are carried at no more than their recoverable amount**, i.e. the amount expected to be recovered through use of the asset, or its fair value less cost to sell.

Scope

This Standard applies in accounting for the impairment of:

- financial assets classified as subsidiaries, associates and joint ventures (for other financial asset, refer IFRS 9 for impairment).
- assets that are carried at revalued amount.

Introduction

Ind AS 36 Scope excludes:

- Inventories (Ind AS 2),
- Contract assets (Ind AS 115),
- Deferred tax assets (Ind AS 12),
- Assets arising from employee benefits (Ind AS 19),
- Financial Assets within scope of Ind AS 109
- Biological assets (Ind AS 41)
- Deferred acquisition cost and intangible assets from Insurance contracts (Ind AS 104)
- Non-Current Assets held for sale (Ind AS 105)

Ind AS 36 Scope includes

Financial Assets classified as investments in subsidiaries, associates and joint ventures

Ind AS 36 mainly covers impairment aspects for assets like PPE, CWIP, Intangible Assets (including under development), ROU, operating lease of lessor

Abbreviations

CGU = Cash generating unit
CV = Carrying value
FVLCOD = Fair value less costs of disposal
VIU = Value in use

When do you need to do an impairment test?

For all assets scoped in under Ind AS 36

Assess whether there is an indicator of impairment at the **END of EACH REPORTING PERIOD**.

If yes, determine the recoverable amount

Goodwill, Intangible assets under development and those with indefinite useful life

a) Annual mandatory test required for goodwill, indefinite life intangibles [e.g. Brands] and intangibles not yet available for use [e.g. new molecules or platforms under development] or earlier when impairment indicator exist.

b) Impairment test may be performed at any time during an annual period provided it is performed at the same time every year

c) If an intangible asset was initially recognised during the current period that intangible asset shall be tested for impairment before the end of the current annual period.

When do you need to do an impairment test?

Indicators of impairment – External Sources

a) Decline in market value of assets significantly
b) Changes in technological, market, economic or legal environment
c) Increase in market interest rates
d) CV of net assets of an entity more than the market capitalization

Examples Indicators of impairment – External Sources

a) Decline in market value of assets (obsolete technologies)
b) Increase in levies or taxes (carbon taxes etc.)
c) Entry of a major competitor/new product in market likely to impact revenue and profits (generic medicine)
d) Change in consumer demand that entity is unable to respond (physical stores v/s online, green products etc.)

Indicators of impairment – Internal Sources

a) Evidence is available of obsolescence or physical damage
b) Significant changes with an adverse impact on the entity
c) Economic performance of the asset is or will be worse than expected

Example Indicators of impairment – Internal Sources

a) An asset becoming idle or plan to dispose off an asset before the previously expected date
b) Cash flow for acquiring the asset or the operations and maintenance expense is significantly higher than budgeted
c) Net cashflows from asset or operating profit or loss are significantly worse than budgeted (budget v/s actual)

What are you testing for impairment?

Individual asset

Generates largely independent cash flows;

Cash generating unit

Assets that can't be tested individually

Groups of cash generating units

- Goodwill allocated to groups of CGUs
- Can't be bigger than an OPERATING segment or internal level monitored

Order of testing

A CGU 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.

Recoverable amount

Higher of:

Value in use – very specific rules regarding cash flows

Fair value less costs of disposal – what would a market participant pay?

Examples of FVLCD methods

a) Comparable companies multiple (EBITDA/Revenue)
b) Discounted cashflow (DCF)
c) Relief from Royalty (mainly for intangibles like patents, brands etc)
d) Replacement cost (Tangible assets)

Examples of Costs of disposal

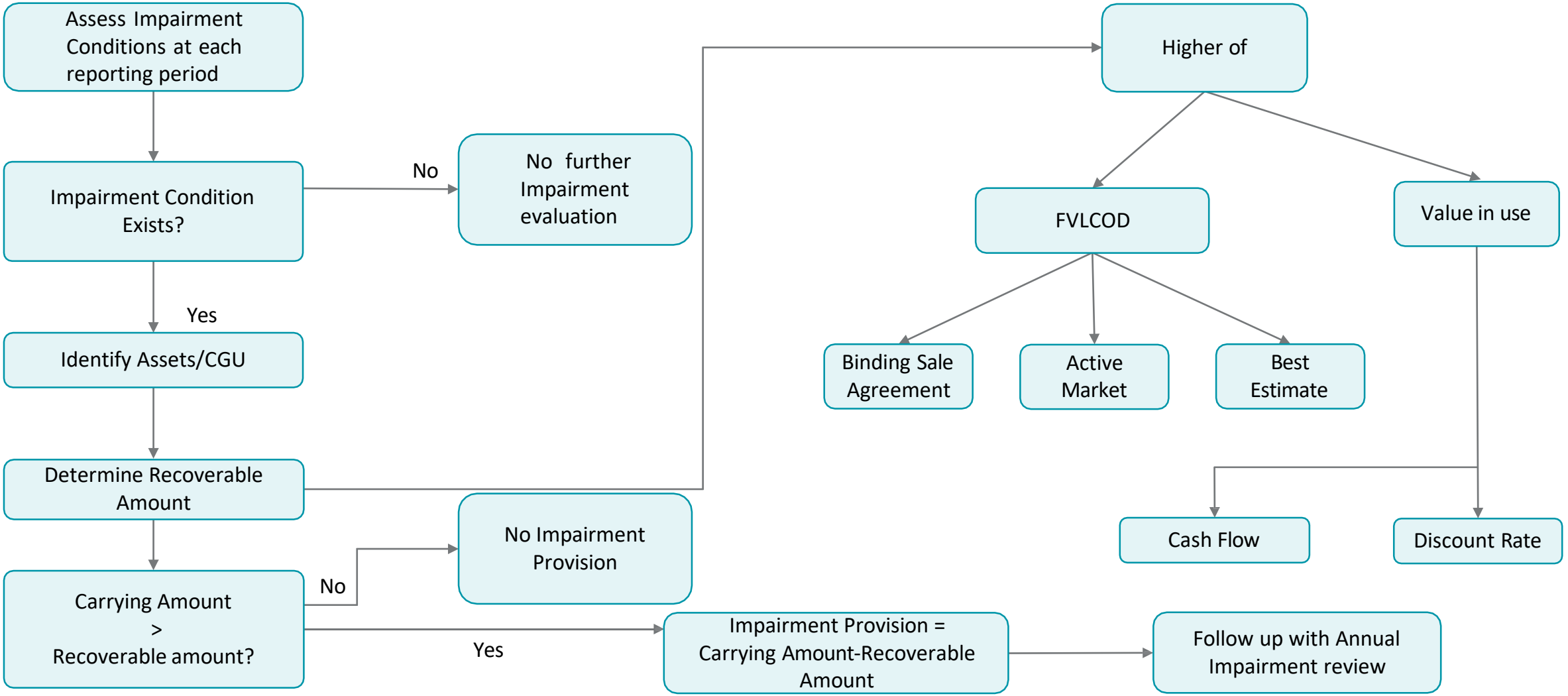
Legal cost, stamp duty, transaction taxes, cost of removing the asset & incremental cost to bring an asset into condition for sale



Fair Value vs Value in Use

Fair Value (less costs to sell)	Value in Use
Market approach typical, but can also be performed on discounted cash flow basis	Discounted cash flow basis with specific rules on inclusion and exclusion of cashflows
Can include market participant assumptions on synergies, expansion, capex etc.	No restructuring/expansion/enhancement
If on a DCF basis, discount rate may be higher than for VIU	Discount rate from perspective of owner (typically means lower size premium)
Should be performed on multiple approaches – market approach can be quite a blunt tool	Should be cross-checked if possible (Total VIU to market cap reconciliation, implied EBITDA multiples)

Identifying an asset that may be impaired


Assess Impairment Conditions at each reporting period
Impairment Condition Exists?
No
No further Impairment evaluation
Yes
Identify Assets/CGU
Determine Recoverable Amount
Higher of
FVLCOD
Value in use
Binding Sale Agreement
Active Market
Best Estimate
Cash Flow
Discount Rate
No Impairment Provision
No
Carrying Amount > Recoverable amount?
Yes
Impairment Provision = Carrying Amount-Recoverable Amount
Follow up with Annual Impairment review

Identification of CGU

A CGU 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.

Considerations in identification of CGUs

- Have CGUs been identified at the lowest level to minimise the risk/possibility that impairment of one asset or group will be masked by a high-performing asset.
- The level at which CGUs are identified (legal entity, division, product line, geographic region, physical location).
- Are assets and liabilities attributed to CGUs consistent with the cash flows that are identified for calculating recoverable amount.
- Are CGUs identified consistently from period to period unless a change is justified (business combination, entry or exit from a region, introduction or withdrawal of products, divestment etc.).
- Determining CGU is also critical as goodwill shall from acquisition date be allocated to CGU or group of CGUs that is expected to benefit from the synergies of combination.
- Goodwill is allocated at the lowest level of CGU at which it is monitored internally and not be larger than operating segment
- Determining appropriate CGUs is also critical as the impairment assessment and disclosures are at CGU/Group of CGU level

VIU – Specified cashflows and Discount rate

VIU calculations should

- Include cash inflows from the continuing use of the asset.
- Include cashflows over a maximum period of 5 years unless longer period can be justified (steady or declining growth). [Aggressive cashflows for new age industries like quick commerce, AI, digital payment etc basis growth prospects]
- Exclude cash outflows or related cost savings (e.g. reductions in staff costs) or benefits that are expected to arise from a future restructuring to which an entity is not yet committed.
- Exclude future cash flows that are expected to arise from improving or enhancing an asset's performance. They should, however, include future cash flows necessary to maintain the level of economic benefits expected to arise from the asset in its current condition, for example overhauls or fault inspections, replacement assets etc.
- Exclude cash inflows and outflows from financing activities and income tax receipt and payments

Discount rates should be

- Pre-tax rate that reflects current market assessment of the time value of money (practically done on post tax basis)
- The risks specific to the asset (See Note below)
- Independent of the enterprise's capital structure. Discount rates should reflect a market participant rate, rather than the cost of financing internal to the entity. Normally determined basis Capital Asset Pricing Model (CAPM).

Note: The discount rate should be asset specific rate, if the same is not available then the following may be considered:
a) WACC b) The enterprise's incremental borrowing rate or c) Other market borrowing rate

Considerations for Terminal Growth rate and Goodwill Impairment

Terminal Growth rate should be

Terminal growth (TG) rate used to extrapolate cash flow beyond the period covered by most recent forecast **must 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. [not default to nominal GDP growth rates]

Consideration for terminal growth rate

- TG needs to be assessed separately for each CGU
- 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 [Para 36]
- Additional adjustments to terminal year cashflows to capture items such as capital expenditure towards replacement assets and lease renewals arising after that final year.

Goodwill impairment

- Goodwill needs to be grossed up for the NCI interest if the initial recognition of goodwill basis the excess of purchase consideration over the investor's proportionate share of net assets.
- Corporate assets [corporate headquarter, IT assets, Research centre] and corporate costs [IT cost, HR cost, marketing activities] need to be allocated to the CGUs on a reasonable and consistent basis.
- Impairment loss will be first allocated to Goodwill
- Goodwill once impaired cannot be reversed (including that impaired at an Interim date).

Consideration for Right of use assets under Ind AS 116

ROU assets often belong to a CGU and should be included in carrying value

VIU projections should no longer have outflows for those cashflows on b/s as liability

Think about future ‘replacements’

Discount rate needs to incorporate cost of leasing debt

Climate Change Impacts

Impact due to **changes to Business models** discussed in strategic reports. Is there consistency?

Changes to future cashflow due to **impact of additional cost, taxes, capex** and customer preferences

Ways in which Climate change may affect the future cashflows of an entity

a) Decline in demand for products that emit greenhouse gases - (scope 3 reporting) affecting revenue projections
b) Levy of taxes and fees (levy of CBAM by European Union on carbon intensive goods, purchase of carbon credits, carbon tax etc.) – increasing cash outflows
c) Government regulations for high polluting industries (coal power plants, plastic, transport etc.)

Disclosure **of key assumptions included in projections relating to climate change**

Might impact discount rates due to additional climate related risk in business

Overview of Impairment calculations

VIU (5-YR DCF)

Annual numbers, not monthly

Show historical (for comparison)

Build growth rate % Into the model – why?

Taxes

Mid-point discounting

Include capex and working capital – investment to support operations

Free cash flow to service equity / debut

Discount Rate for Market uncertainty in cash flows

	-2 A 30 June 2019	-1 A 30 June 2020	0 A 30 June 2021	1 B 2022	2 F 2023	3 F 2024	4 F 2025	5 F 2026	T T Terminal
Revenue	900	1,100	700	900	1,100	1,200	1,300	1,400	1,420
Rent:				29%	22%	9%	8%	8%	1%
- Base Rent	(109)	(113)	(116)	0	0	0	0	(120)	(120)
- Supplement	(45)	(55)	(35)	(45)	(55)	(60)	(65)	0	0
Other Expenses	(500)	(600)	(700)	(700)	(850)	(950)	(1,000)	(1,100)	(1,110)
				0%	21%	12%	5%	10%	1%
E&ITDA	246	332	(151)	155	195	190	235	180	190
Depreciation	(54)	(54)	(54)	(159)	(159)	(159)	(159)	(54)	(54)
Tax	(74)	(100)	45	(47)	(59)	(57)	(71)	(54)	(57)
Income after Tax	119	179	(159)	(51)	(23)	(26)	5	73	80
Adjustments									
- Depreciation (ROU/	4	4	4	109	109	109	109	4	4
- Depreciation (PPE)	50	50	50	50	50	50	50	50	50
- Capex	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
- Working Capital	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Free cash flow	168	228	(110)	103	131	128	159	122	129
Discount Period				0.5	1.5	2.5	3.5	4.5	4.5
Discount Rate	14.0%			0.94	0.82	0.72	0.63	0.55	0.55
Enterprise Value			1,419	98	109	93	101	67	952

Assets	
Brand	500
Plant and equipment	350
Right of use asset- Store X Lease	423
Right of use asset- Corporate Lease	5
Other Assets	100
Total CGU	1378
Enterprise Value	1419
Headroom / (Impairment)	41

Key Assumption Validation – Business Assumptions

a) **Validation of Working Capital Adjustment**
Ensure consistent use of Inventory Turnover Ratio, Trade Receivable Turnover Ratio, and Trade Payable Turnover Ratio across the forecasted period.

b) **Appropriate Consideration of Working Capital Adjustment**
Confirm that working capital adjustments are accurately reflected in the projections.

c) **Capacity Utilization Analysis**
Verify that capacity utilization is adequate and comparable to previous years, with no major deviations.

d) **Revenue and Gross Profit Margin Growth**
Check if the projected growth rates align with historical trend analysis. Apply haircut or experience-based adjustments if deviations are observed.

e) **Comparison of Previous Year Projections vs Actuals**
Example: If the previous year's projected profit was ₹100 crores but the actual result was a ₹4 crore loss, this indicates a fundamental issue in forecasting. Apply necessary experience-based adjustments to current projections.

f) **Sensitivity Analysis**
Conduct sensitivity analysis to assess the impact of key assumptions on financial outcomes.

Key Assumption Validation – Valuation Assumptions

a) Valuation Approach

Assess the appropriateness of the valuation methodology. Ensure alignment with applicable Accounting Standards and consistency across periods.

b) Evaluation of Key Assumptions

- **Discount Rate:** Validate input assumptions such as leverage ratio, risk-free rate, and risk premium.
- **Growth Rate:** Assess reasonableness based on historical trends and market expectations.
- **Terminal Value Assumptions**: Review long-term growth rates and perpetuity assumptions.

c) Sensitivity Analysis: Perform and evaluate sensitivity of the valuation to changes in key assumptions.

d) Review of Beta Calculation: Assess the computation methodology, source of inputs, and relevance to the entity's risk profile.

e) Expert Involvement: Review the work of management's valuation expert and, where applicable, the auditor's expert.Evaluate use and relevance of expert inputs and models.

f) External Benchmarking: Compare assumptions with external data sources such as industry benchmarks, analyst reports, and credit agency publications.

Allocating impairment losses

The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and
- 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).

In allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:

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

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.

Impairment testing - Key Pointers

Impairment Assessment – Key pointers

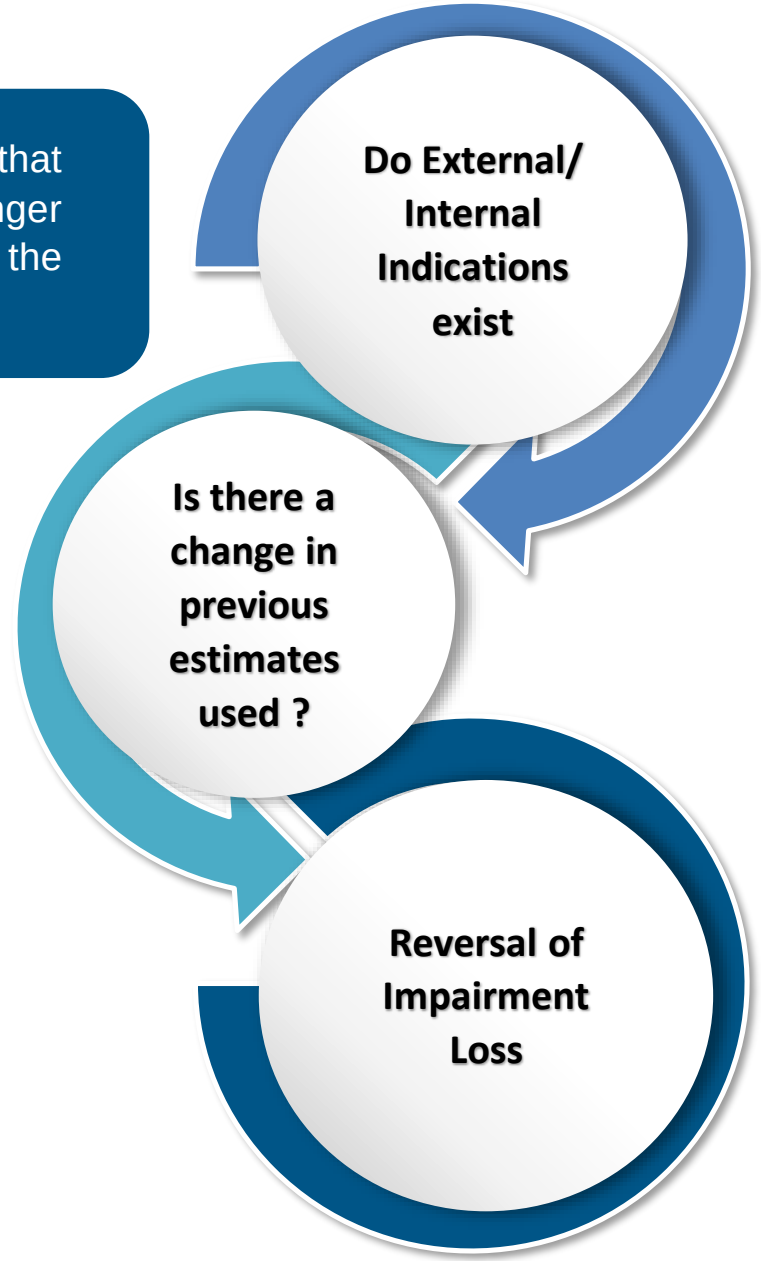
- Impairment indicator evaluation **at each reporting period** – **External and internal factors** – [para 9 and 12]
- **Corporate asset allocation** should be done to the CGUs involved and should be on a consistent and reasonable basis.[para 102]
- If a CGU unit includes in its carrying amount an intangible asset that has an indefinite useful life or is not yet available for use then the **unit also to be tested for impairment annually**. [para 89]
- if an intangible asset was initially recognised during the current annual period, that intangible asset shall be tested for impairment **before the end of the current annual period**.[para 10a]
- Consider **renewal of leases at gross values where lease term ends** within the projected period and should consider in the terminal value as well.
- Investment impairment – consider the proportionate share of recoverable value (where holding not 100%) when comparing with carrying amount of investments and discount rate computation will have equity component
- The disclosure for **WACC** used for VIU has to be on **pretax basis.** [para 55]
- Consistency between Impairment projections and that used for Going concern or Deferred tax Asset recoverability assessment.



Reversal of Impairment loss

Reversal of impairment loss (1/4)

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.



For the entire CGUs

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.

Note: 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 had no impairment loss been recognised for the asset in prior periods.

For Goodwill

Impairment loss for goodwill, shall not be reversed in the subsequent period.

Reversal of impairment loss (2/4)

Indicators of reversal of impairment:

External indicators of impairment	Internal indicators of impairment
Observable indicators that asset's value has **significantly increased** during period.	Evidence is available from internal reporting indicates the performance of asset will be better than expected.
Significant changes with a **favorable effect** on the enterprise during the period or in the near future, in the technological, market, economic or legal environment in which the enterprise operates has taken place.	Significant **favorable changes** have taken place in the extent to which, or manner in which, an asset is used or is expected to be used.
Market **interest rates** or other market rates of return on investments have **decreased** during the period.	

An impairment loss recognised in prior years for assets other than goodwill shall be reversed if there has been change in estimates used in determining the recoverable amount of asset/CGU since the last impairment loss was recognised. Examples of changes in estimates are:

- Change in basis of recoverable amount (whether Value in use or fair value less cost of disposal),
- If value in use was taken, a change in timing or amount of estimated cash flows,
- If fair value less cost to sell was taken, a change in estimate of components of fair value.

Reversal of Impairment loss (3/4)

Reversal – Individual Asset

- 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 amortization or depreciation) had no impairment loss been recognised for the asset in prior years.
- 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 Indian Accounting Standard (for example, the revaluation model in Ind AS 16). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with that other Indian Accounting Standard.
- After a reversal of an impairment loss is recognised, the depreciation (amortization) 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.

Reversal of Impairment loss (4/4)

Reversal – CGU

A reversal of an impairment loss for a CGU 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.

In allocating a reversal of an impairment loss for a CGU in accordance with paragraph 122, 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 amortization 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.



Presentation and Disclosure

Presentation and Disclosure

The amount of the impairment loss, reversals and revaluations recognised in P&L or OCI

Events and circumstances leading to impairment



More granular disclosures for significant goodwill

Processes and assumptions used:
To identify CGUs
To allocate goodwill
To determine applicable discount rate

Estimates used to measure recoverable amounts of CGUs (indefinite lives)

Disclosures

Disclosures for impairment losses recognised or reversed [para 130]:

- the events and circumstances that led to the recognition or reversal of the impairment loss.
- the amount of the impairment loss recognised or reversed.
- In case of an asset, the nature of asset and related reportable segment to which it belongs
- In case of a CGU, whether the recoverable amount is basis VIU or FVLCOD (further disclosure basis the method used for determining recoverable amount)

For EACH CGUs with significant goodwill or indefinite life intangibles [para 134]:

- The carrying amount of Goodwill or indefinite life intangibles and basis on which recoverable value is determined.
- Management's approach to determining Key assumptions[past or external source], period of projections, and level of fair value hierarchy (FVLCOD) and if there is a change in valuation technique, the change and reason for making it.
- Growth rate and discount rate. **Discount rate should be pre-tax disclosure and not the post tax rate used in computation**
- Sensitivity is only required **when a reasonably possible change (judgement involved)** would completely erode headroom. DISCLOSE HOW MUCH THE ASSUMPTION WOULD NEED TO CHANGE BY TO ERODE HEADROOM

The disclosures as per para 134 of Ind AS 36 for Goodwill and Intangible with indefinite useful life need to be done even when there is no impairment in respect of such assets and comparatives should also be disclosed
Previous year's numbers also need to be disclosed for the Goodwill disclosure. (it is missed most of the times)

Example Disclosure

Disclosures for impairment losses recognised or reversed [para 130]

- There are 5 CGUs to which Goodwill is allocated and are disclosed in FS
- Abstract from FS of a listed company **“the rates used to discount the forecast is 7.5% to 14%.”**

Pitfall in disclosure

- It is not specified or disclosed if the discount rate is pre-tax rate or post tax rate.
- Discount rate disclosure is made as a range rather than specifying discount rate for each CGU
- Terminal growth rate disclosure not made
- Previous year disclosure not made

Example disclosure CGU wise v/s on an aggregate basis

Carrying amount of Goodwill has been allocated to CGU as detailed in Table below

T Group	30 June 2023 ($mn)	30 June 2022 ($mn)
D pacific	XX	XX
T Enterprise International	XX	XX
T Enterprise local	XX	XX

We have used the following key assumptions in determining recoverable value of CGUs to which GW is allocated

T Group	Discount rate		Terminal growth rate	
	2023	2022	2023	2022
D pacific	13.4	N.A	3.0	N.A
T Enterprise International	8.5	9.9	2.0	2.0
T Enterprise local	13.3	14.0	2.5	2.5

Disclosure from a listed Indian IT company FS which has 9 CGUs in different geographies:

These calculations are based on net present value of cash flow projections over a period of five years discounted at the rate of 18% - 26.5% (FY 2021-22 18%-23.5%), pre-tax, which is arrived after consulting the valuation experts. The cash flow projections included specific estimates for five years and a terminal growth rate thereafter at 2% (FY 2022-23 2%).

Sample Disclosure

Each key assumption on which management has based its cash flow projections [para 134(d)(i)]

Disclosure from a listed Indian IT company FS which has 9 CGUs in different geographies

The Group has considered steady growth rate of 15% to 18% YOY from FY 2023-24 onwards (FY 2022-23 2.5% to 18% YOY). The discount rate used in the calculation reflects market's assessment of these risks specific to the asset as well as time value of money. EBITDA margins considered in the projections are based on international services and for FY 2023-24 onwards it is taken at 10% to 47% (FY 2022-23 7% to 22%) based on financial budgets approved by management.

Pitfall in disclosure: Good disclosure for key assumptions but past trends may not represent the revenue growth rate or EBITDA margin disclosed raising questions on assumptions considered

Sensitivity on a reasonable possible change in key assumptions [para 134(f)]

Disclosure by a foreign telecom company

We also perform a sensitivity analysis to examine the effect of a change in a key assumption on the remaining CGUs. The pre-tax discount rate would need to increase by 90 basis points (2022: 364 basis points) or the terminal value growth rate would need to decrease by 135 basis points (2022: 697 basis points) before the recoverable amount of any of the CGUs would equal its carrying value. No other changes in key assumptions will result in a material impairment charge for any of the CGUs.

Disclosure from a listed Indian IT company FS which has 9 CGUs in different geographies

The Group has performed sensitivity analysis around the base assumptions and has concluded that there are no reasonably possible changes to key assumptions that would cause the carrying amount of a CGU to exceed its recoverable amount



Impairment – Practical insights

Impairment Assessment – Practical Insights

Entity A acquires Entity B and recorded a goodwill of Rs 1000 on acquisition. Entity A has 3 segments namely pharma, chemicals and vitamins which are similar to Entity B and are independent CGUs.

Q. Can Entity A decide to keep goodwill at Entity B level and not allocate to the CGU?

Impairment Assessment – Practical Insights

Entity A acquires Entity B and recorded a goodwill of Rs 1000 on acquisition. Entity A has 3 segments namely pharma, chemicals and vitamins which are similar to Entity B and are independent CGUs.

A. Para 80 specifies that Goodwill to be allocated to the lowest level within the entity at which it is monitored for internal reporting purpose and not be larger than an operating segment. Accordingly, Entity A will have to allocate Goodwill at minimum 3 segment level to which it pertains.

Impairment Assessment – Practical Insights

Entity A acquires Entity B and recorded a goodwill of Rs 1000 on acquisition. Entity A has 3 segments namely pharma, chemicals and vitamins which are similar to Entity B and are independent CGUs.

Q. What if in above scenario Entity A has 3 more sub-CGU within the Pharma Segment which is Oncology, Cardiac and Diabetology. Will the Goodwill relating to Pharma be allocated further to the 3 sub-CGUs?

Impairment Assessment – Practical Insights

Entity A acquires Entity B and recorded a goodwill of Rs 1000 on acquisition. Entity A has 3 segments namely pharma, chemicals and vitamins which are similar to Entity B and are independent CGUs.

A. Entity A will allocate Goodwill to the sub-CGUs within the pharma segment if it monitors goodwill at the sub-CGU level for internal reporting purpose.

Impairment Assessment – Practical Insights

Goodwill Impairment assessment is done at a segment level for pharma segment which has 3 sub-CGUs and cash flow projections are at a consolidated level for the 3 CGUs. The oncology CGU has a Brand which is an Intangible asset with an indefinite useful life.

Q. Whether impairment assessment for Brand has to be assessed separately or can be included with Goodwill impairment evaluation?

Impairment Assessment – Practical Insights

Goodwill Impairment assessment is done at a segment level for pharma segment which has 3 sub-CGUs and cash flow projections are at a consolidated level for the 3 CGUs. The oncology CGU has a Brand which is an Intangible asset with an indefinite useful life.

A. Impairment assessment needs to be done for the specific CGU with intangible asset with an indefinite useful life with cashflows specific to that CGU.

Impairment Assessment – Practical Insights

Allocation of impairment loss

Facts: A cash-generating unit comprises the following:

		$m
Building		30
Plant and equipment		6
Goodwill		10
Current assets	20	
		66

Following a recession, an impairment review has estimated the recoverable amount of the cash-generating unit to be $50m.

How do we allocate the impairment loss?

Impairment Assessment – Practical Insights

Allocation of impairment loss- solution

Solution:

The loss will be applied first against the goodwill and then against the tangible non-current assets on a **pro-rata** basis. After writing off the goodwill, the balance to be allocated is $6m. This is pro-rated over the total of $36m for the remaining non-current assets at a rate of $1m per $6m.

	Carrying amount	Impairment loss	Carrying amount post- impairment
	$m	$m	$m
Building	30	(5)	25
Plant and equipment	6	(1)	5
Goodwill	10	(10)	0
Current assets	20	-	20
	66	**(16)**	**50**


Any
QUESTIONS?



Thank you

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