DEPARTMENT OF COMMERCE
D.B. COLLEGE, JAYNAGAR
LALIT NARAYANA MITHILA UNIVERSITY, DARBHANGA (BIHAR)

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CORE CONCEPT OF

CORPORATE ACCOUNTING

IMPAIRMENT OF ASSETS (Ind AS 36 and IAS 36)

There is an established principle that assets should not be carried at more than their recoverable amount. If the carrying value of an asset is more than its recoverable amount the asset is described as impaired. In such a case, the company should write down the carrying value of that asset to its recoverable amount. The amount written off is called impairment of loss.

Objectives

- Assets should be 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 sale.
- Specify procedures to be followed to ensure that assets are not carried at more than recoverable amount
- Specify when an impairment loss should be reversed.
- Specify required disclosures.

Scope

This Standard shall be applied in accounting for the impairment of all assets, other than:

(a) inventories (see Ind AS 2 Inventories);

(b) assets arising from construction contracts (see Ind AS 11Construction Contracts);

(c) deferred tax assets (see Ind AS 12 Income Taxes);

(d) assets arising from employee benefits (see Ind AS 19 Employee Benefits);

(e) financial assets that are within the scope of Ind AS 39 Financial Instruments:

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Recognition and Measurement

(f) biological assets related to agricultural activity that are measured at fair value less costs to sell (see Ind AS 41 Agriculture.

(g) deferred acquisition costs, and intangible assets, arising from an insurer's contractual rights under insurance contracts within the scope of Ind AS 104 Insurance Contracts; and

(h) non-current assets (or disposal groups) classified as held for sale in accordance with Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations.

Definition of impairment

Impairment is the fall in the value of asset, so that its recoverable amount is less than its carrying amount in the balance sheet.

Accounting treatment

The accounting treatment of impairment of asset involves the following steps.

Step 1 ***Identifying an asset that may be impaired***

An entity should assess at the end of each reporting period, whether there is any indication of impairment. For assessing the indication of impairment, a firm should consider external sources of information and internal sources of information.

a. External sources of indication of impairment
   - Market value declines.
   - Negative changes in technology , markets, economy, or laws
   - Increase in market interest rates.
   - Company stock price is below book value

b. Internal sources of indication
   - Obsolescence or physical damage
   - Asset is part of a restructuring or held for disposal
   - Worse economic performance than expected

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