

# [Impaired asset](https://assignbuster.com/impaired-asset/)

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IMPAIRMENT OF ASSETS

The following information relates to Q1 & Q2. Information about three assets are given below in the table: Aldo Balbo Casco Value in Use $150, 000 $195, 000 $105, 000Carrying Amount $90, 000 $140, 000 $112, 000Net Realizable Value $115, 000 $136, 000 $85, 000

Q1. What are the recoverable amounts of each asset? (MCQ)Aldo ($115, 000), Balbo ($136, 000), Casco ($105, 000)Aldo ($150, 000), Balbo ($136, 000), Casco ($105, 000)Aldo ($150, 000), Balbo ($195, 000), Casco ($105, 000)Aldo ($115, 000), Balbo ($195, 000), Casco ($85, 000)(2 marks)

Q2. What are the impairment losses on each asset? (MCQ)Aldo ($0), Balbo ($0), Casco ($0)Aldo ($0), Balbo ($55, 000), Casco ($20, 000)Aldo ($25, 000), Balbo ($4, 000), Casco ($7, 000)Aldo ($0), Balbo ($0), Casco ($7, 000)(2 marks)

Q3. A cash-generating unit has the following assets: Building $600, 000Plant & Machinery $100, 000Goodwill $80, 000Inventory $50, 000Total $830, 000One of the machines valued at $60, 000 has been damaged & will be scrapped. The total recoverable amount estimated from the cash-generating unit is $470, 000. What is the recoverable amount of the current assets after the impairment loss? (MCQ)$21, 800$28, 000$33, 500$50, 000 (2 marks)

Q4. Which of the following correctly defines the recoverable amount of an asset? (MCQ)Current market value of the asset less cost of disposalHigher of fair value less cost of disposal & value in useHigher of carrying amount & fair valueLower of fair value less cost of disposal & value in use (2 marks)

Q5. An asset has a carrying amount of $55, 000 at the year-end 31st March 2002. Its market value is $47, 000 having a disposal cost of $3, 500. A new asset will cost $85, 000. The company expects that the asset will generate $19, 000/per annum of cash flows for the next three years. The cost of capital is 8%. What is the impairment loss to be recognized for the year end 31st March 2002? (FIB)3613151270000$ (2 marks)

Q6. Which of the following are internal indications of impairment? (MRQ) A fall in the market value of a machine due to inflationThe management realized that an asset is unable to produce up to its full capacityA report prepared by the warehouse manager than one of the lifter cars has crashed into a wallThe development of intention of management to sell the asset during the next 3 months (2 marks)

Q7. Moby had purchased an asset on 1st September 2009 at a cost of $500, 000 with the useful life of ten years with no cash inflow at the time of disposal. The asset has been depreciated until 31st October 2014. At that date, an accident occurred which resulted in the damage of the asset & an impairment test was taken by Moby.

On 31st October 2014, the fair value of the asset was $160, 000 with $10, 000 cost of disposal. The expected future cash flows were $13, 000/annum for the next five years. The cost of capital is at 10% with five-year annuity factor of 3. 79. Calculate the impairment on 31st October 2014? (MCQ)$0$100, 000$150, 970$200, 730 (2 marks)

Q8. A cash-generating unit has the following assets: Property & Plant $400, 000Machinery $90, 000Goodwill $75, 000License $5, 000Net Assets (realizable value) $30, 000Total $600, 000The company had breached a government legislation which results in its cash-generating unit value to fall by $200, 000. What will be the value of Property & Plant after the impairment? (MCQ)$101, 010$126, 316$266, 667$298, 990 (2 marks)

Q9. Which of the following is not an indicator of impairment? (MCQ)The NRV of inventory has reduced due to damages but carrying amount is still lowered it's than NRV Technological advancement has boomed in a country resulting old machinery becoming obsoleteCost of capital of a company has increased due to increase in market ratesThe carrying amount of an asset is higher of the recoverable amount of an asset (2 marks)

Q10. A company purchased an asset on 1st January 2000 costing $2. 1 million and its life was 10 years. On 31st December 2001, the fair value of the assets was $1. 9 million. On 31st December 2002, the recoverable amount of the asset was $0. 7 million. Calculate the impairment loss to be recorded in Profit ; Loss account on 31st December 2002? (FIB)3613151270000$ (2 marks)

Q11. A cash-generating unit has the following assets: Building $409, 050Plant ; Machinery $311, 000Goodwill $30, 500Inventory $156, 000Total $906, 550One of the plants valued at $91, 000 was destroyed ; will be scrapped. The total recoverable amount estimated from the cash-generating unit is $760, 050. What is the recoverable amount of the Plant ; Machinery after the impairment loss? (FIB)3613151270000$ (2 marks)

Q12. Meagan had purchased an asset on 1st September 2015 at a cost of $300, 000 with the useful life of six years with no residual value. The asset has been depreciated until 31st October 2020. At that date, the asset was damaged ; an impairment test was taken by Moby. On 31st October 2020, the fair value of the asset was $60, 000 with a $3, 000 cost of disposal. The expected future cash flows were $16, 000/annum for the next five years. The cost of capital is at 13% with five-year annuity factor of 3. 52. Calculate the impairment on 31st October 2020? (MCQ)$0$680$6, 320$7, 000(2 marks)

Q13. A delivery van has a carrying amount of $39, 000 at the year-end 31st March 2016. Its market value is $33, 800 having a disposal cost of $1, 250. A new delivery van will cost $46, 500. The company expects that the van can generate $9, 300/per year of cash flows for the next four years. The cost of capital is 5%. What is the impairment loss to be recognized for the year end 31st March 2016? (MCQ)$1, 250$5, 200$6, 022$6, 450(2 marks)

Q14. ZZZ Co purchased a non-current asset on 1st January 2012 costing $3. 75 million and its life was eight years. On 31st December 2013, the fair value of the non-current asset was $2. 95 million. On 31st December 2014, the recoverable amount of the asset was $1. 25 million. Calculate the impairment loss to be recorded in Profit ; Loss account on 31st December 2014 nearest to $000? (FIB)3613151270000$ 000 (2 marks)

IMPAIRMENT OF ASSETS (ANSWERS)

Q1. CRecoverable amount is the higher of the Value in Use or the Net Realizable Value.

Q2. DImpairment loss = Carrying amount – Recoverable amount = Positive (+) Aldo = $90, 000 - $150, 000 = (-$60, 000) No ImpairmentBalbo = $140, 000 - $195, 000 = (-$55, 000) No ImpairmentCasco = $112, 000 - $105, 000 = $7, 000 Impairment

Q3. DAssets which have their own impairment criteria do not fall under the scope of IAS 32 -Impairment of asset. Inventory is impaired under IAS 2 - Inventory where it is calculated by choosing lower of Cost or Net Realizable Value.

Q4. B

Q5. $6, 037Value in UseCash Flow Discount Factor 8% Present Value19, 000 0. 926 $17, 59419, 000 0. 857 $16, 28319, 000 0. 794 $15, 086Total PV $48, 963Fair Value less Cost to sell = $47, 000 - $3, 500 = $43, 500Higher of = $48, 963Impairment Loss = $55, 000 - $48, 963 = $6, 037

Q6. A fall in the market value of a machine due to inflation (External indication)The management realized that an asset is unable to produce up to its full capacity (Internal indication)A report prepared by the warehouse manager than one of the lifter cars has crashed into a wall (Internal indication)The development of intention of management to sell the asset during the next 3 months (Internal indication)

Q7. BCarrying Amount = (500, 000 × 5/10) = 250, 000Fair value less cost to sell = (160, 000 – 10, 000) = 150, 000Value in use = (13, 000 × 3. 79) = 49, 270Recoverable amount $150, 000, Impairment = 250, 000 – 150, 000 = $100, 000

Q8. DThe total impairment of CGU is $200, 000The goodwill is impaired by $75, 000 leaving $125, 000 of impairment to be allocated to other assets. Total of assets to be impaired is $495, 000 (400 + 90 +5)Impairment = (400, 000 ÷ 495, 000) × 125, 000 = 101, 010Fair Value after impairment = 400, 000 – 101, 010 = $298, 990

Q9. AThe NRV of the inventory is still greater than its carrying amount so no impairment has arisen

Q10. $742, 500Calculation done in $000Cost = 2, 100Depreciation = (2, 100 × 2/10) = 420Carrying amount (After 2 years) = 2, 100 – 420 = 1, 680Revaluation of asset = 1, 680 1, 900 = 220 in Revaluation ReserveNew Cost = 1, 900Depreciation = (1, 900 × 1/8) = 237. 5Carrying amount (After 1 year) = 1, 900 – 237. 5 = 1, 662. 5Impairment loss = 1, 662. 5 – 700 = 962. 5Reversal of Revaluation Reserve = $220Excess recorded in Profit ; Loss account = 962. 5 – 220 = $742, 500

Q11. $211, 257The total impairment of CGU is $146, 500The goodwill is impaired by $30, 500 leaving $116, 000 of impairment to be allocated to other assets. The plant is impaired by $91, 000 leaving $25, 000 of impairmentTotal of assets to be impaired is $629, 050 (409, 050 + 311, 000 – 91, 000)Impairment = (220, 000 ÷ 629, 050) × 25, 000 = 8, 743Fair Value after impairment = 220, 000 – 8, 743 = $211, 257

Q12. ACarrying Amount = (300, 000 × 1/6) = 50, 000Fair value less cost to sell = (60, 000 – 3, 000) = 57, 000Value in use = (16, 000 × 3. 52) = 56, 320Recoverable amount $57, 000, Impairment = 50, 000 – 57, 000 = $0

Q13. CValue in UseCash Flow Annuity Factor 5% (1-4) Present Value9, 300 3. 546 $32, 978Total PV $32, 978Fair Value less Cost to sell = $33, 800 - $1, 250 = $32, 550Higher of = $32, 978Impairment Loss = $39, 000 - $32, 978 = $6, 022

Q14. $1, 071, 000Calculation done in $000Cost = 3, 750Depreciation = (3, 750 × 2/8) = 937. 5Carrying amount (After 2 years) = 3, 750 – 937. 5 = 2, 812. 5Revaluation of asset = 2, 812. 5 2, 950 = 137. 5 in Revaluation ReserveNew Cost = 2, 950Depreciation = (2, 950 × 1/6) = 491. 67Carrying amount (After 1 year) = 2, 950 – 491. 67 = 2, 458. 33Impairment loss = 2, 458. 33 – 1, 250 = 1, 208. 33Reversal of Revaluation Reserve = $137. 5Excess recorded in Profit ; Loss account = 1, 208. 33 – 137. 5 = $1, 070, 830Nearest to $000 = $1, 071, 000