

# Impaired asset

[Finance](#), [Investment](#)



## IMPAIRMENT OF ASSETS

The following information relates to Q1 & Q2. Information about three assets are given below in the table:

Asset	Value in Use	Carrying Amount	Net Realizable Value
Aldo	\$150,000	\$90,000	\$115,000
Balbo	\$195,000	\$140,000	\$136,000
Casco	\$105,000	\$112,000	\$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 \$600,000 Plant & Machinery \$100,000 Goodwill \$80,000 Inventory \$50,000 Total \$830,000 One 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 disposal Higher of fair value less cost of disposal & value in use Higher of carrying amount & fair value Lower 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 inflation  
The management realized that an asset is unable to produce up to its full capacity  
A report prepared by the warehouse manager than one of the lifter cars has crashed into a wall  
The 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 \$400,000 Machinery \$90,000 Goodwill \$75,000 License \$5,000 Net Assets (realizable value) \$30,000 Total \$600,000 The 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 lower than NRV Technological advancement has boomed in a country resulting old machinery becoming obsolete Cost of capital of a company has increased due to increase in market rates The carrying amount of an asset is higher than 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 asset 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 \$409,050 Plant ; Machinery \$311,000 Goodwill \$30,500 Inventory \$156,000 Total \$906,550 One 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. C Recoverable amount is the higher of the Value in Use or the Net Realizable Value.

Q2. D Impairment loss = Carrying amount - Recoverable amount = Positive  
 (+) Aldo = \$90,000 - \$150,000 = (-\$60,000) No Impairment  
 Balbo = \$140,000 - \$195,000 = (-\$55,000) No Impairment  
 Casco = \$112,000 - \$105,000 = \$7,000 Impairment

Q3. D Assets 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. \$6,037 Value in Use  
 Cash Flow Discount Factor 8% Present Value  
 19,000 0.926 \$17,594  
 19,000 0.857 \$16,283  
 19,000 0.794 \$15,086  
 Total PV \$48,963  
 Fair Value less Cost to sell = \$47,000 - \$3,500 = \$43,500  
 Higher of = \$48,963  
 Impairment 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 that 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. B Carrying Amount =  $(500,000 \times 5/10) = 250,000$   
 Fair value less cost to sell =  $(160,000 - 10,000) = 150,000$   
 Value in use =  $(13,000 \times 3.79) = 49,270$   
 Recoverable amount \$150,000, Impairment =  $250,000 - 150,000 = \$100,000$

Q8. D The total impairment of CGU is \$200,000 The 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 =  $(400,000 \div 495,000) \times 125,000 = 101,010$  Fair Value after impairment =  $400,000 - 101,010 = \$298,990$

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

Q10. \$742,500 Calculation done in \$000 Cost = 2,100 Depreciation =  $(2,100 \times 2/10) = 420$  Carrying amount (After 2 years) =  $2,100 - 420 = 1,680$  Revaluation of asset =  $1,680 - 1,900 = -220$  in Revaluation Reserve New Cost = 1,900 Depreciation =  $(1,900 \times 1/8) = 237.5$  Carrying amount (After 1 year) =  $1,900 - 237.5 = 1,662.5$  Impairment loss =  $1,662.5 - 700 = 962.5$  Reversal of Revaluation Reserve = \$220 Excess recorded in Profit ; Loss account =  $962.5 - 220 = \$742,500$

Q11. \$211,257 The total impairment of CGU is \$146,500 The 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 impairment Total of assets to be impaired is \$629,050 (409,050 + 311,000 - 91,000) Impairment =  $(220,000 \div 629,050) \times 25,000 = 8,743$  Fair Value after impairment =  $220,000 - 8,743 = \$211,257$

Q12. A Carrying Amount =  $(300,000 \times 1/6) = 50,000$  Fair value less cost to sell =  $(60,000 - 3,000) = 57,000$  Value in use =  $(16,000 \times 3.52) = 56,320$  Recoverable amount \$57,000, Impairment =  $50,000 - 57,000 = \$0$

Q13. C Value in Use Cash Flow Annuity Factor 5% (1-4) Present Value 9,300 3.  
 546 \$32,978 Total PV \$32,978 Fair Value less Cost to sell = \$33,800 - \$1,  
 250 = \$32,550 Higher of = \$32,978 Impairment Loss = \$39,000 - \$32,978  
 = \$6,022

Q14. \$1,071,000 Calculation done in \$000 Cost = 3,750 Depreciation =  $(3,750 \times 2/8) = 937.5$  Carrying amount (After 2 years) =  $3,750 - 937.5 = 2,812.5$  Revaluation of asset =  $2,812.5 - 2,950 = -137.5$  in Revaluation Reserve New Cost = 2,950 Depreciation =  $(2,950 \times 1/6) = 491.67$  Carrying amount (After 1 year) =  $2,950 - 491.67 = 2,458.33$  Impairment loss =  $2,458.33 - 1,250 = 1,208.33$  Reversal of Revaluation Reserve = \$137.5 Excess recorded in Profit ; Loss account =  $1,208.33 - 137.5 = 1,070,830$  Nearest to \$000 = \$1,071,000