



IMPAIRMENT OF ASSETS

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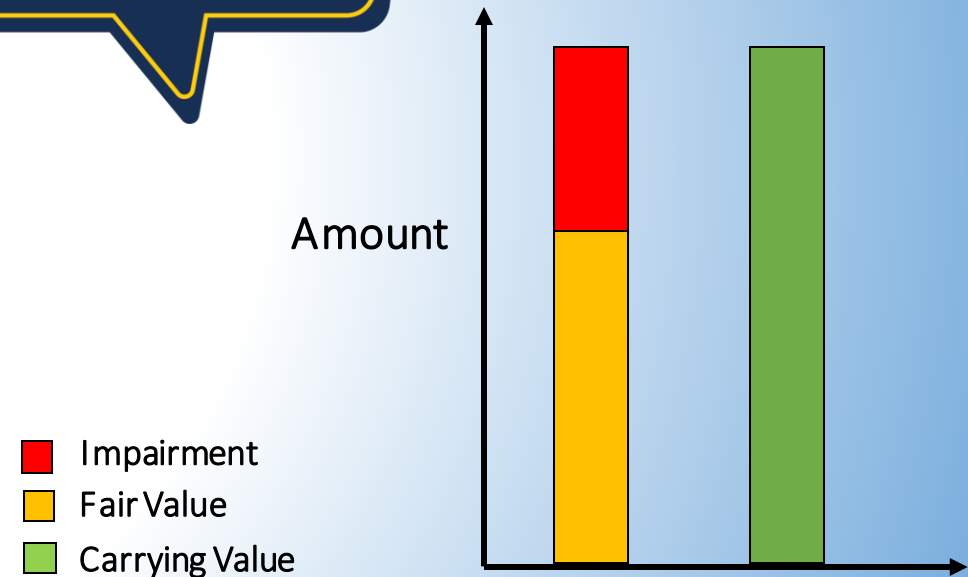
IMPAIRMENT LOSS

IMPAIRMENT LOSS

IMPAIRMENT PRINCIPLE

- The term impairment refers to assets that are no longer of the same value as in a prior period. An impairment charge is used and the asset is revalued downward and a "charge" is made to net assets.
- Amount by which **Carrying Amount** of an asset generating unit exceeds its **Recoverable Amount**.
- Any impairment loss is recognized as an expense in profit or loss for assets carried at cost. IAS 36 deals with impairment testing for all tangible and intangible assets, except for assets that are covered by other IFRS.

Impairment is used to denote a significant reduction in fair value of an asset below the carrying amount.



IMPAIRMENT LOSS



Bicycle is damaged
due to accident



While selling in market
it will earn only the
scrap value

Now, Scrap Value or
Market Value or Fair
Value < Carrying Amount.
So the bicycle is impaired



CAUSES OF IMPAIRMENT LOSS

CAUSES OF IMPAIRMENT LOSS



**Technological
Factor**



EXTERNAL FACTORS



- Significant decline in Market Value of the asset.
- Changes in technological environment.
- Changes in legal environment

**Decline in the market value
of an asset**

CAUSES OF IMPAIRMENT LOSS

Internal Factors



- Physical damage of the asset.
- Significant changes have taken place or are likely to take place which have an adverse effect on the assets.



Physical Damage

The major loss is due to obsolescence

OBSOLESCENCE



OBSOLESCENCE

Obsolescence in the business sense is the loss in value of an asset due to loss of usefulness or technological factors; obsolescence describes an asset which is "out of date." Obsolescence is not related to the physical usefulness or workings of the asset.

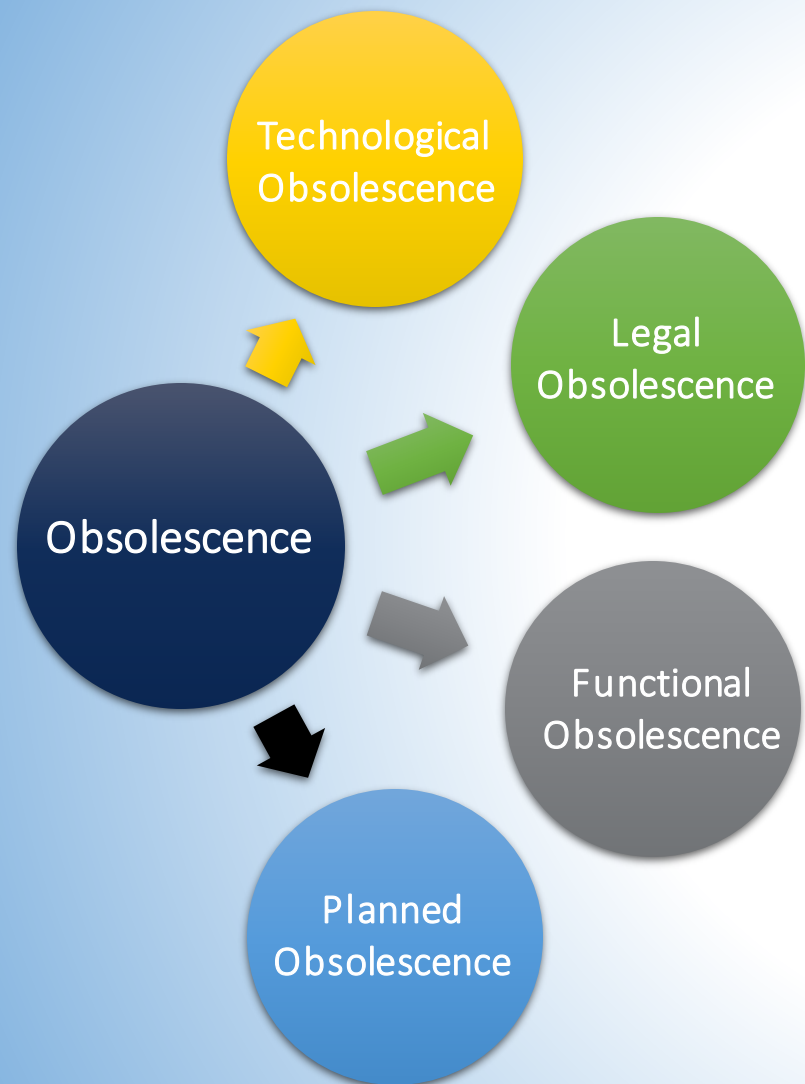
An old building with massive walls and in which rooms are not constructed as per modern trend becomes obsolete even if it has been maintained properly. Its value becomes less due to obsolescence.

The obsolescence may be due to the reasons such as progress in arts changes in fashions, changes in planning ideas, new inventions, improvements in design technique etc.

Thus, though the asset is Physically sound it may become functionally inadequate and its economical returns become less.



TYPE OF OBSOLESCENCE



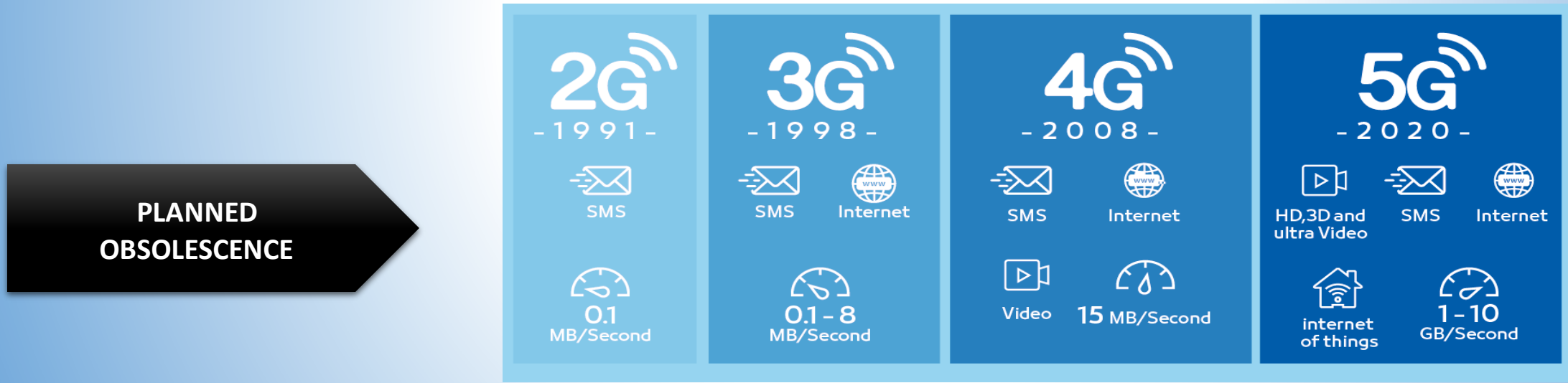
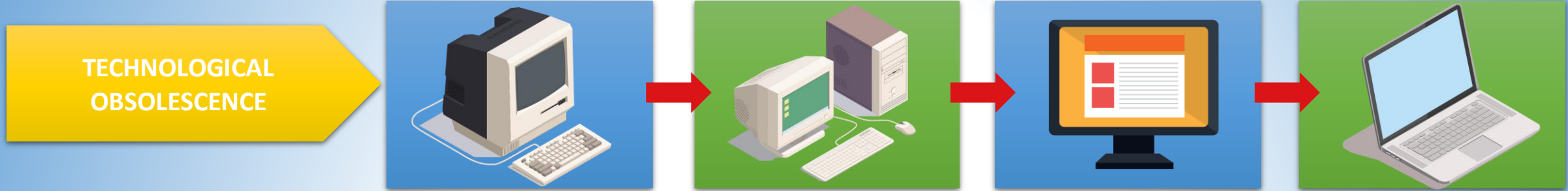
Technological Obsolescence: It happens when an upgraded product or a superior technology overtakes its predecessor. For example – CDs/DVDs overtaking audio/video cassettes, smartphones overtaking old black and white cellphones, etc.

Functional Obsolescence: It happens when a system is not able to perform its intended function anymore and becomes a costly affair to bring out high/optimum performance from them.

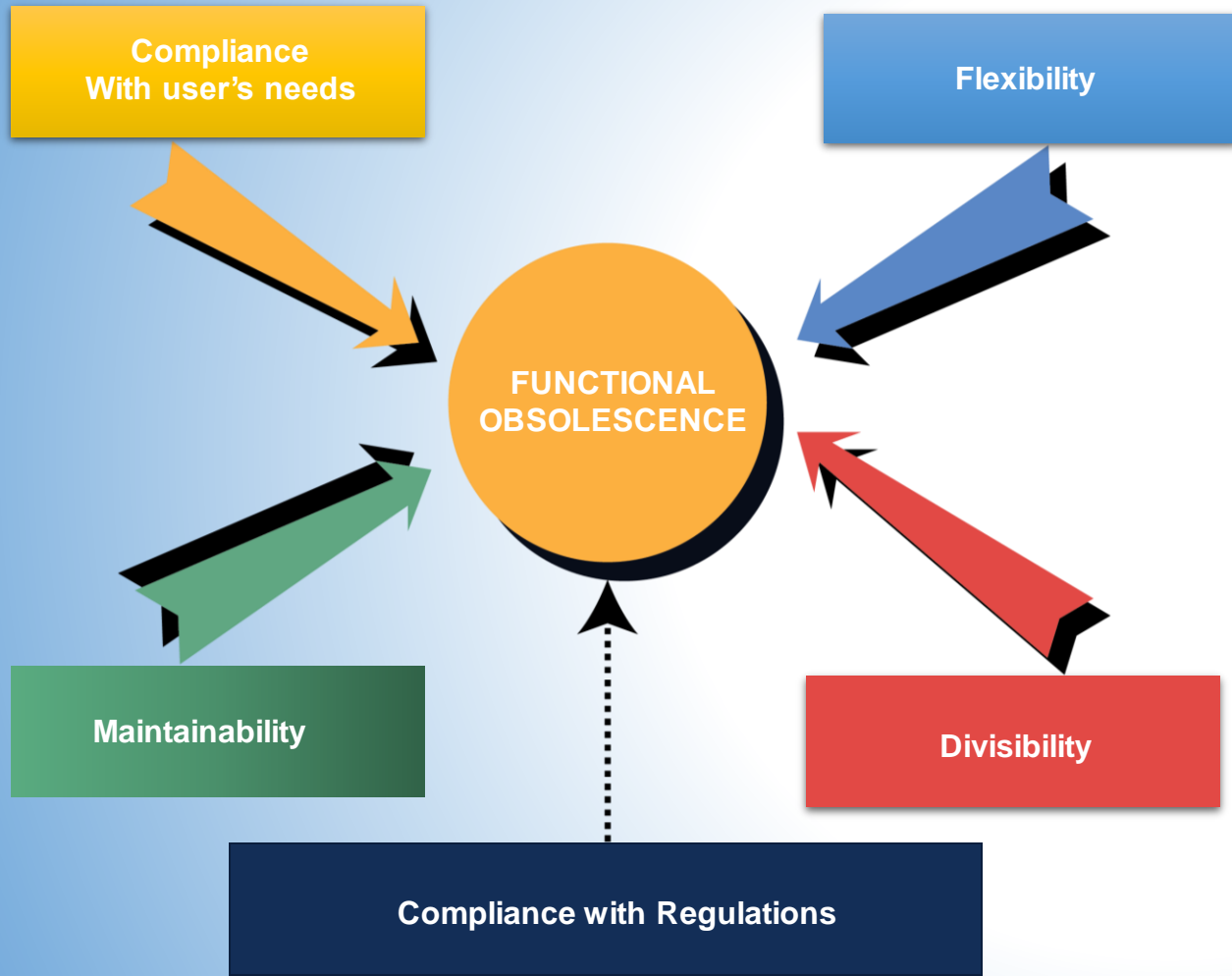
Planned obsolescence: It is deliberately designing a product not to long last. Long gone are the days of rugged products. Manufacturers now days are intentionally introducing obsolescence during the product design.

Legal Obsolescence: Legislation, or other directive/order, issued by an authority having jurisdiction, resulting in the prohibitive use of certain assets unless specified changes are introduced or renewal is carried out.

TYPE OF OBSOLESCENCE



TYPE OF OBSOLESCENCE



Functional Obsolescence

There is a time when the original manufacturers stops manufacturing the same parts of machine because they might have updated their product.

Due to this, the repairmen and spare parts both become obsolete and they try to update themselves too. This finally leads to increase in maintenance cost and so it is better to let the product functionally obsolete than to keep it alive.

HOW IS IMPAIRMENT LOSS CALCULATED?

HOW IS IMPAIRMENT LOSS CALCULATED?

Identify the factors that lead to an asset's impairment like changes in market conditions, new legislation or regulatory enforcement, turnover in the workforce or decreased asset functionality due to aging.

A good approximation of fair market value or future cash flow the asset would expect to generate in continued business operations. (Fair Value)



Once, the fair market value is assigned, it is then compared to the carrying value of the asset as represented on the company's financial statements. (Carrying Value)

If the calculated costs of holding the asset exceed the calculated Recoverable value, the asset is considered to be impaired.
Recoverable value = Higher of "Value-In-Use" and "FVLCS (Fair Value Less Cost to Sell)"

It usually represents the need for an increased reinvestment.

VALUE – IN – USE



Value – in - Use

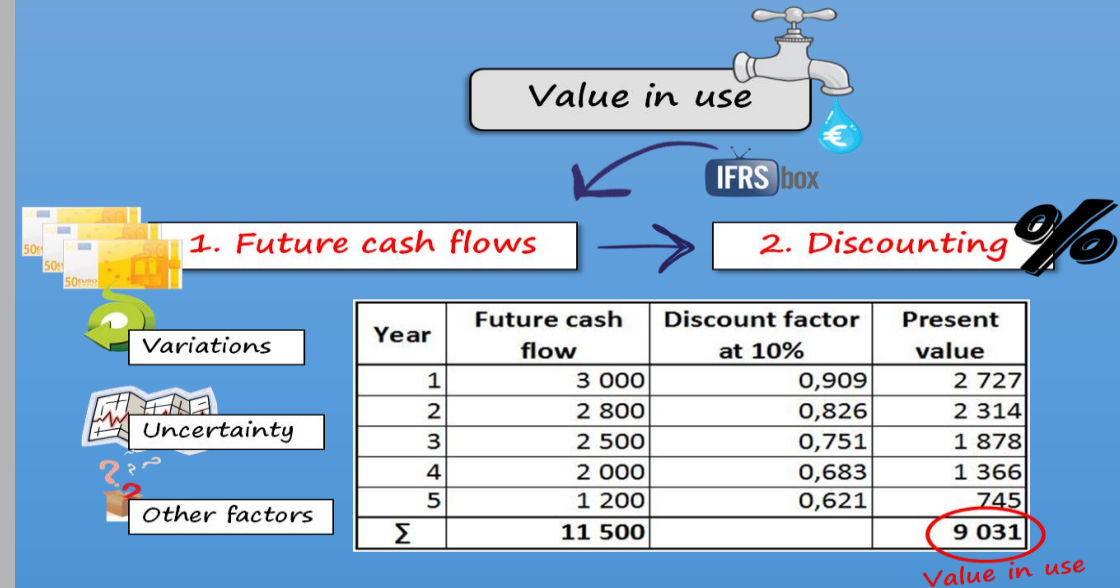
Value in use (VIU) is the present value of the future cash flows expected to be derived from an asset or a CGU. A VIU calculation includes:

Cash flow projections

- An estimate of the future cash flows that the entity expects to derive from the asset.
- Expectations about possible variations in the amount or timing of those future cash flow.

Discount rate

- The price for bearing the uncertainty inherent in the asset which can be reflected in either the cash flow estimate or the discount rate.
- The time value of money.
- Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset



FVLCS (FAIR VALUE LESS COST TO SELL)

"FVLCS= Fair Value Less Cost to Sell"

Asset

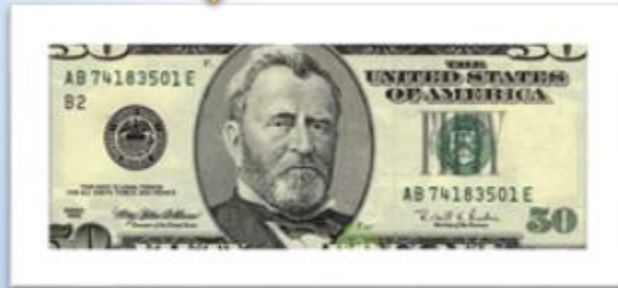


FVLCS

=

Fair Value

Cost to Sell

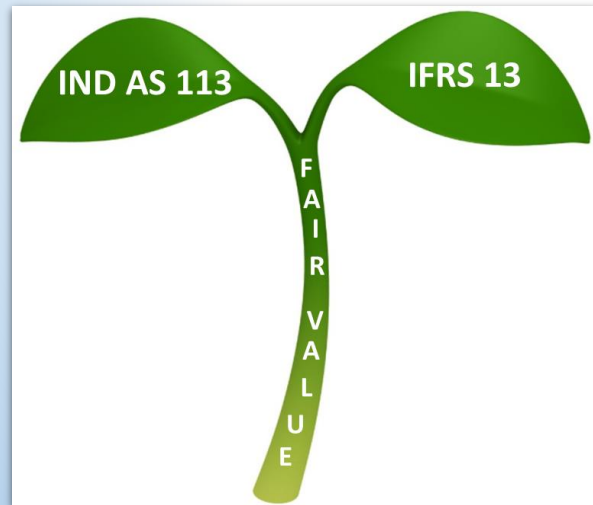




FAIR VALUE

FAIR VALUE

Fair Value is the price that would be received to sell an Asset or paid to transfer a liability in an orderly transaction between Market participants at the measurement date.



Carrying Amount is the amount at which an asset is recognized after deducting accumulated depreciation and impairment losses thereon.

It is the Book Value or Value displayed in the Balance Sheet.

- 1 Impairment Loss
- 2 Causes
- 3 Obsolescence
- 4 Impairment Loss Calculation
- 5 Value-in-use
- 6 FVLCS
- 7 Fair Value
- 8 Illustration
- 9 Effects of COVID-19

FAIR VALUE

As per INDAS 113

- Fair value is the price that would be received to sell an asset.
- Costs to sell would include legal costs to selling and direct incremental costs e.g. costs which would necessarily be incurred if the asset is sold.
- IND AS 113 Fair value measurement applies to IND AS's that require or permit fair value measurements.

As per IFRS 13

- IFRS 13 defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurements.
- IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or the liability under current market conditions, including assumptions about risk.



KEY DETERMINANT

1

Transaction – In the Principal and most advantageous market

Fair value measurement assumes 'the transaction to sell the asset or transfer the liability takes place either:

- (a) in the principal market for the asset or liability; or
- (b) in the absence of a principal market, in the most advantageous market for the asset or liability.

2

Transaction – Between Market participants and measurement date

An entity uses the assumptions that market participants would use when pricing an asset or liability at measurement date. Market participants have following characteristics:

- Independent of each other
- Knowledgeable, having a reasonable understanding
- Able to enter into a transaction
- Willing to enter into a transaction



KEY DETERMINANT

3

Transaction - To Sell and transaction costs

As at the measurement date, the transaction to sell an asset or transfer a liability is, by definition, a **hypothetical transaction** for the particular asset or liability being measured at fair value in an orderly market.

Fair value is not adjusted for **transaction costs**, viz, the costs to sell an asset or transfer a liability in the principal (or most advantageous) market that are directly attributable to the disposal of asset or the transfer of liability.

4

Asset - Unit of account & Asset Characteristics

Item to be measured is based on unit of account specified by Ind AS that requires/permits fair value e.g. as a:

- stand-alone asset or liability (e.g. financial asset or liability) ; or
- group of assets or liabilities (e.g. cash generating unit) ; or
- group of assets and liabilities (e.g. business).

The unit of account is the level at which an asset or a liability is aggregated or disaggregated in an Ind AS for recognition purposes.



OVERVIEW

Overview of fair value measurement approach:

The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions.

- The particular asset or liability that is the subject of the measurement (consistently with its unit of account)
- The valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

Guidance on measurement:

IFRS 13 provides the guidance on the measurement of fair value, including the following:

- An entity take into account the characteristics of the asset or liability being measured that a market participant would take into account when pricing the asset or liability at measurement date.
- Fair value measurement assumes an orderly transaction between market participants at under current market conditions.
- A fair value of non-financial asset take into account its highest and best use
- The fair value of a liability reflects non-performing risk .



FAIR VALUE HIERARCHY

IND AS 113 established three level Fair Value hierarchy for inputs to measures Fair Value:

Unadjusted quoted prices in active markets for identical assets or liabilities

Level 1

Inputs other than quoted prices included in Level 1 that are **observable**, either directly or indirectly

Level 2

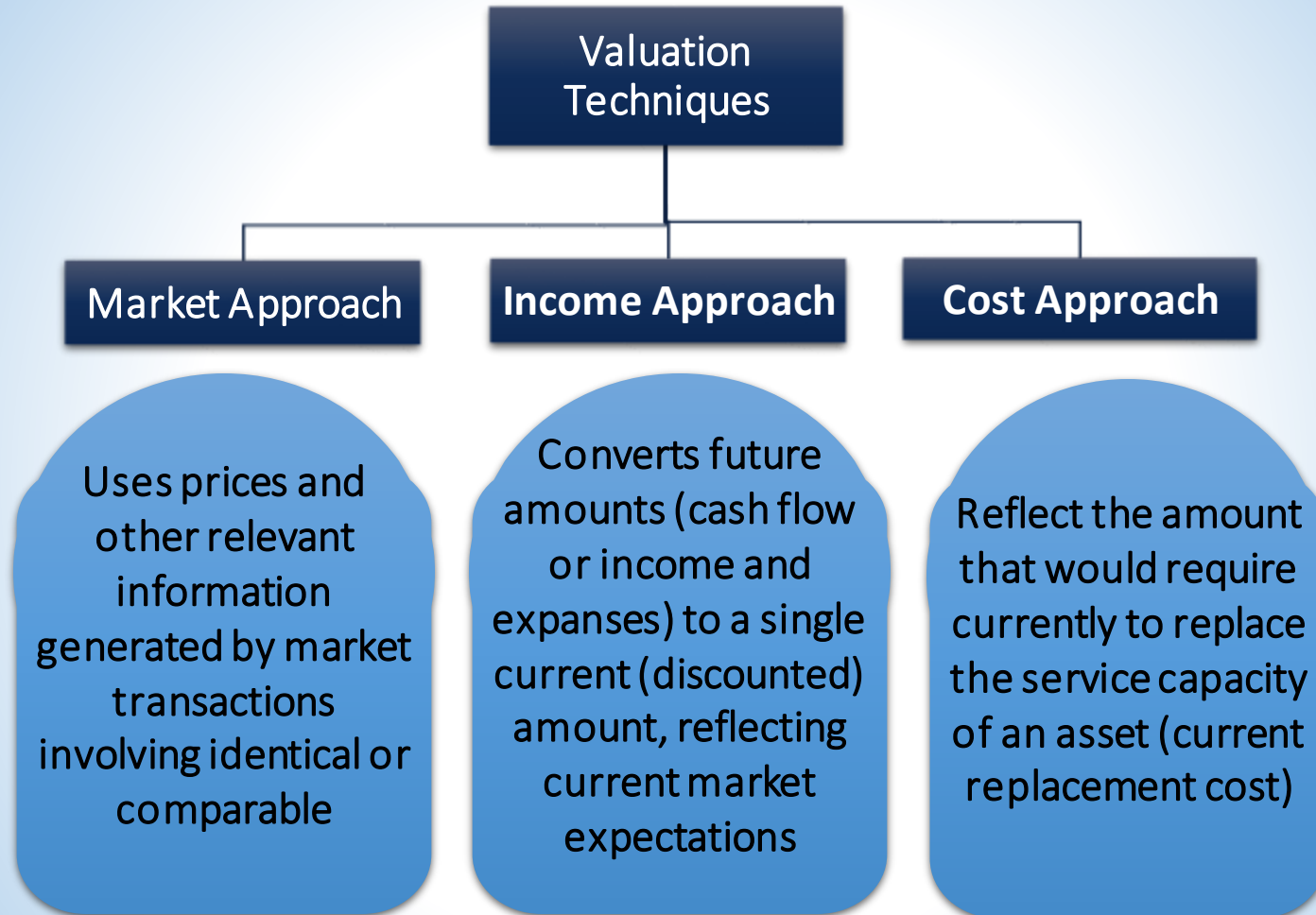
Unobservable

Inputs

Level 3



VALUATION TECHNIQUES



ILLUSTRATION

ILLUSTRATION

The following example is included for illustrative purposes only. Assume a wholly-owned subsidiary is a Cash Generating Unit (CGU).

P&M purchased = Rs. 60.00 Cr. as per books

Net carrying value = Rs. 40.00 Cr. as per books

- The industry to which the CGU belongs is experiencing mid to high level growth (6% —14%) and market participants are forecasting future capacity shortage in the medium term.
- The pre-tax discount rate is assumed at 12.5%.
- Based on Value-in-use determine below, CGU has an impairment loss of Rs. 2.75 Cr. (= 40.00 - 37.25).
- However, Value-in-use is lower than the carrying value, FVLCS should be calculated. The higher of the two would be the recoverable amount of CGU.

| | FY20-21 | FY21-22 | FY22-23 | FY23-24 | FY24-25 |
|---------------------------------|--------------|-------------------------|-------------|-------------|-------------|
| Income | 20.00 | 22.00 | 24.00 | 26.00 | 29.00 |
| Expenses | 14.00 | 15.00 | 17.00 | 18.00 | 20.00 |
| EBITDA | 6.00 | 7.00 | 7.00 | 8.00 | 9.00 |
| Capital cost expenditure | 0.12 | 0.14 | 0.14 | 0.16 | 0.18 |
| Present Value cash flow | 5.88 | 6.86 | 6.86 | 7.84 | 8.82 |
| Discount rate | 12.50% | All value is in Rs. Cr. | | | |
| Present value of free cash flow | 25.25 | | | | |
| Terminal value | 12.00 | | | | |
| Value in use | 37.25 | | | | |



ILLUSTRATION

FVLCS (Fair value less Cost to Sale)

Economic life = 20 years

Age of P&M = 5 years

| S No | Particular | Rs. Cr. |
|------|---------------------------------------|----------------------|
| 1 | Gross Current Replacement Cost (GCRC) | 65.00 |
| 2 | Depreciation (Dep) | 7.00 |
| 3 | Technical Obsolescence (TO) 10% | 6.50 |
| 4 | Functional Obsolescence (FO) 5% | 3.25 |
| 5 | Depreciated Replacement Cost (DRC) | GCRC - Dep - TO - FO |
| 6 | DRC | 48.25 |
| 7 | Economic Obsolescence (EO) 20% | 9.65 |
| 8 | Fair Value | DRC - EO |
| 9 | Fair Value | 38.60 |
| 10 | Cost to sell | 0.38 |
| 11 | FVLCS | 38.98 |
| 12 | FVLCS (say) | 39.00 |

As mentioned in above slide, higher of FVLCS and VIU would be considered as recoverable amount.

Value-in-use = Rs. 37.25 Cr.

FVLCS = Rs. 39.00 Cr.

Recoverable amount = Rs. 39.00 Cr. (FVLCS > VIU)

Impairment loss testing :

If RA > CA, Impairment loss is not there.

If CA > RA, Impairment loss is there.

In current case, there is an impairment loss as

CA = Rs. 40.00 Cr.

RA = Rs. 39.00 Cr.

Impairment loss = CA – RA

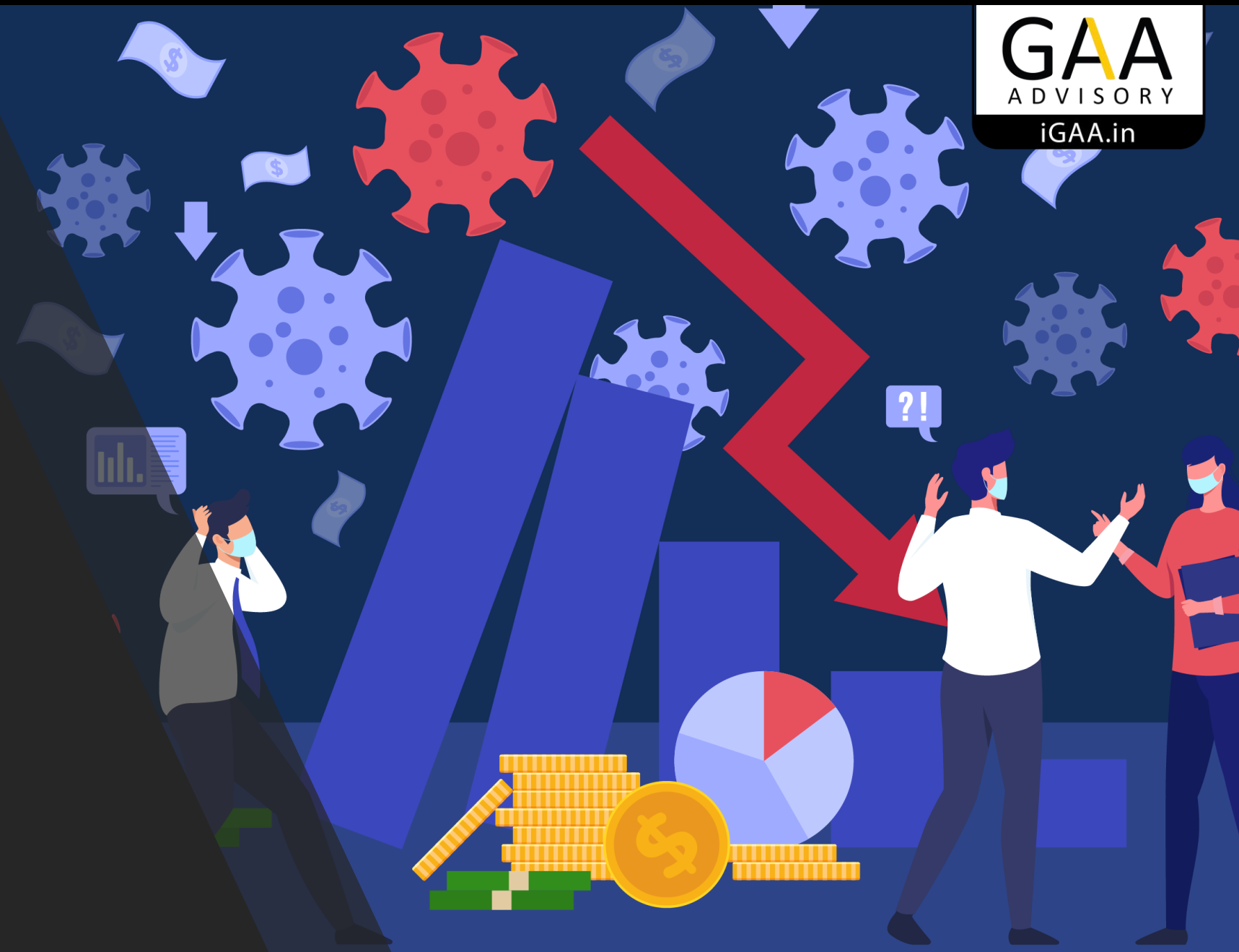
Impairment loss = 40.00 – 39.00

Impairment loss = Rs. 1.00 Cr.

Impairment loss

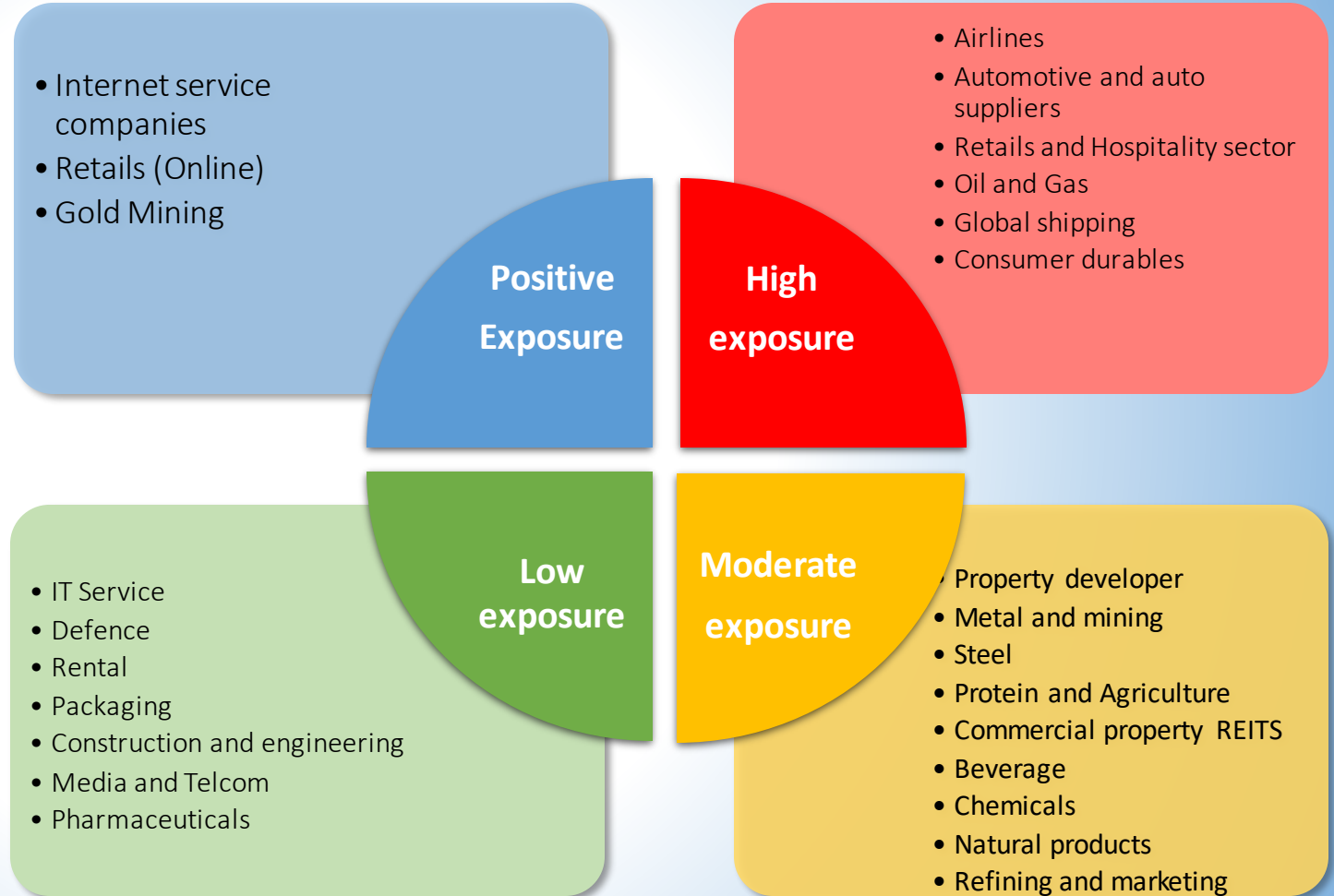
Rs. 1.00 Cr.

IMPACT OF COVID 19 ON VARIOUS SECTORS



VALUATION TECHNIQUES

COVID-19 induced economic disruption will disproportionately impact some industry sector more than others. This negative impact on different sectors might lead to test the impairment of the assets.



SERVICES

Valuation

Business & Business Interests

- Business & Equity Valuation
- Valuation of Start-up / IPO / REIT / M&A, Leverage Buyout Valuation
- Valuation of ESOPs and Sweat Equity
- Valuation for Tax, Capital Gain, Transfer Pricing
- Valuation for Financial Reporting, Fairness Opinion, Purchase Price Allocation (PPA) for M&A
- Determination of Swap Ratio under Merger and Demerger
- Valuation of Inventory / Stocks and Debentures / Receivables
- Litigation and Dispute Support

Intangible Assets

- Valuation of Brands, Goodwill, Trademark, Copyright, Patents, Other Intangible Assets & Intellectual Property
- Valuation for Financial Reporting, Fairness Opinion, Purchase Price Allocation (PPA) for (M&A)
- Impairment Studies of Intangible Assets

Financial Instruments

- Valuation of Financial Securities, Instruments & Derivatives
- Valuation for M&A Transaction, under Insolvency & Bankruptcy Code

Immovable Assets (Real Estate)

- Valuation of Land, Building Residential / Commercial / Industrial Estates
- Valuation of Infrastructure Assets, Expressways / Toll Ways & Specialized Assets
- Valuation for Capital Gain Tax, Stamp Duty, Litigation & Dispute
- Impairment Studies for Financial Reporting, PPA, Cash Generating Units
- Mines, Mineral Advisory and Valuation
- Valuation under Insolvency & Bankruptcy Code (IBC)

Movable Assets (Plant & Machinery)

- Valuation of Industrial Assets and Plant & Machinery
- Valuation of Infrastructure Assets & Specialized Assets, Power Plants
- Fairness Opinion, Purchase Price Allocation for M&A
- Impairment Studies for Financial Reporting, Cash Generating Units
- Valuation under Insolvency & Bankruptcy Code (IBC)

Transaction Advisory

- Buy side due diligence and closing due diligence
- Vendor due diligence and vendor assistance
- Sale Purchase agreement (SPA) and Business Transfer Agreement (BTA)
- Assistance in deal negotiation

SERVICES



Risk Consulting

Strategic & Risk Advisory Services

- Techno Economic Feasibility Studies
- Economic Viability & Financial Appraisal
- Business Plan Review

Technical Support Services

- Lender's & Investor's / Independent Engineer Services
- Technical Due Diligence, Technical Opinions
- Chartered Engineers Opinion & Certification
- Project Cost Investigations
- Project Appraisal & Monitoring

Agency for Specialized Monitoring (ASM)

- Term Loan Monitoring
- Working Capital Monitoring
- Cash Flow Monitoring

Financial & Treasury Risk Advisory

- Assessment Of Credit Risk, Market Risk & Interest Rate Risk
- Assets Quality Review & Stress Testing
- Assessment of Expected Credit Loss
- Assessment of Asset Liability Management & Liquidity Risk

Investment Banking

- M&A Advisory:
 - Sell Side, Buy Side
 - Domestic & Cross Border
- Partner, Joint Venture & Strategic Alliances
- Government Disinvestment & Privatization
- Fund Raising – Equity, Mezzanine, Structure Finance & Debt
- Distress Investment Banking – One – Time Settlement, Priority and Interim Funding, Rescue Financing and Buyouts

Dispute & Litigation Support

- Valuation Services
- Damages & Loss of Profit Assessment
- Independent Expert Testimony
- Anti – Trust & Competition Advisory
- Post – Acquisition Disputes, Joint Venture & Shareholder Disputes
- Civil & Construction Disputes, Real Estate Disputes
- Intellectual Property Rights Dispute

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