Lecture # 1 (IAS 36)	Lecture # 20 (Over All)

CONCEPT OF IMPAIRMENT LOSS

Class example 1:

1) Following data relates to an asset:

Cost of asset (01.01.2011)	Rs.100
Useful life	10 years
Fair value (31.12.2017)	Rs.35
Cost to sell (31.12.2017)	Rs.7

2) Expected Cash flows in next 3 years are as follows:

Annual inflows	Rs.8
Annual outflows	Rs.2
Sale proceeds at end of year 3	Rs.11
Disposal costs at end of year 3	Rs.3

3) Discount rate for present value calculation is 10%

Required:

(a) Calculate impairment loss (if any) in respect of above asset as on December 31, 2017.
(b) Prepare note of PPE for the year ended December 31, 2017.
(c) Calculate depreciation expense for the year ended December 31, 2018.

Question-2

Daewoo Bus has two Buses. Following Information is available for the purpose of impairment testing:

(i) The remaining useful life of both buses is expected to be 3 years standing on 31.12.12.

(ii) The fair values and written down values of the plants as on 31 December 2012 were as follows:

Buses	Cost	Accumulated Depreciation	WDV	Fair value	Incremental selling cost
			--------------Rs. in million--------------		
B-1	300	80	220	210	7
B-2	200	40	160	150	4

(iii) Expected cash flows from each Buses in next 3 years are as follows:

	B-1	B-2
	------Rs. in million------	
Annual inflows (fare from passengers)	105	55
Annual outflows (driver salary, petrol, token taxes etc.)	11	5
Sale proceeds at end of year 3	8	3
Disposal costs at end of year 3	2	1

(iv) Present value factor, based on a pre-tax discount factor of 10%, for year 1, year 2 and year 3 are 0.909, 0.826 and 0.751 respectively.

Required:

Compute impairment (if any) on each Bus as on 31 December 2012. **(11)**

Lecture # 2 (IAS 36)	Lecture # 21 (Over All)

1. Added requirement c in question 1 of lecture 1.
2. **Question-1**

Solved question 2 of lecture 1.

DETAILED DISCUSSION ON CALCULATION OF VALUE IN USE

Question-2

A company purchased a machine costing Rs. 1,800 on 1 January 20X3. It has a life of 8 years. The fair value as on 31 December 20X5 is as follows:

	Fair value	Incremental selling cost
Machine	800	20

Following future cash flows data is available based on management's most recently approved budgets:

	20X6	20X7	20X8
Outflows:			
Maintenance costs	100	120	80
Operational costs (electricity, water, labour etc.)	200(N-1)	220	240
Interest on loan payments	10	8	6
Principal payments on loan	100	100	100
Tax payments on profits	16	20	28
Cost of increasing the machine's capacity	0	220	0
Overhauling cost	0	30	0
Depreciation	156	211	211
Inflows:			
Basic inflows	400(N-2)	480	560
Extra profits resulting from the upgrade	0	20	50

(N-1) It includes payment of expenses of Rs. 30 to be paid in respect of 20X5 accruals

(N-2) It includes debtors of Rs. 20 to be received from credit sale recorded in 20X5

The useful life of the machine is expected to last for 5 years. The growth rate in the business in 20X5 was an unusual 15% whereas the average growth rate over the last 7 years is:

In the industry	10%
In the business	8%

Discount factor for similar asset is 10%.

Required:

(a) Calculate impairment loss at 31 December 20X5 assuming that a 5-year projection is considered to be appropriate.

Homework:

1) Example 3 on page 796 of RISE book.
2) Practice set question 1 – 5.
3) Past paper 3.

Lecture # 3 (IAS-16 theory discussion)	Lecture # 22 (Over All)

Concepts Discussed

1. Discussion of Theory of PPE
2. Discussion of Disclosure and Presentation
3. Prepare Disclosure of Abbas Limited

Lecture # 3 (IAS 36)	Lecture # 23 (Over All)

Concepts Discussed
Discussion of fair value and cost to sell for calculation of recoverable amount

Q.1 Property, plant and equipment as disclosed in the draft financial statements of Apricot Pakistan Limited (APL) for the year ended 30 June 2018 include a plant having a carrying value of Rs. 610 million. The performance of the plant has been deteriorating since last year which is affecting APL's sales.

Following information/estimates relate to the plant for the year ending 30 June 2019:

	Rs. in million
Inflows from sale of product under existing condition of the plant	250
Operational cost other than depreciation	25
Depreciation	170
Expenses to be paid in respect of 30 June 2018 accruals	8
Cost of increasing the plant's capacity	60
Additional inflows (net) expected from the upgrade	40
Interest on finance lease	30
Maintenance cost	15
Tax payment on profits	18

Cash flows from the plant are expected to decrease by 15% each year from 2020 and onward. The plant's residual value after its remaining useful life of 3 years is estimated at Rs. 100 million.

An offer has been received to buy the plant immediately for Rs. 570 million but APL has to incur the following costs.

	Rs. in million
Cost of delivery to the customer	45
Legal cost	10
Costs to re-organize the production process after disposal of plant	50

Application discount rate is 9%.

Required:
Calculate the amount of impairment loss (if any) on plant, for the year ended 30 June 2018. **(07)**

TREATMENT OF IMPAIRMENT LOSS WHEN ASSET IS CARRIED AT REVALUATION MODEL

Class work

Q.2

Cost of Asset	Rs 500
Date of Purchase	1 Jan 2010
Revalued Amount	800
Revaluation Date	1 Jan 2015
Recoverable Amount (31 Dec 2015)	Rs 450
Use ful life	8 year

Required:
Prepare accounting entries from July 1, 2012 till the year ended June 30, 2015.

Home work

Q.3 Scientific Pharma Limited (SPL) is a manufacturer of pharmaceutical products. Its plant was estimated to have a recoverable amount of Rs. 600,000 at June 30, 2015.

Other related information is as under:

(i) Plant was imported at 2,500,000. The payment was made at the time of shipment on July 1, 2012 and was installed on same day. Other charges including installation cost amounted to Rs. 700,000.

(ii) The company uses straight line method of deprecation. At the time of purchase, the estimated useful life of the plant was estimated at 15 years whereas the salvage value was estimated at Rs. 200,000.

(iii) Based on the report of a professional independent valuer, the plant was revalued on July 1, 2013 at Rs. 5,400,000. There was however, no change in estimated useful life of the plant.

Required:

Prepare accounting entries from July 1, 2012 till the year ended June 30, 2015. **(12)**

Q.3A Assume in Q.3 the plant was estimated to have a recoverable amount of Rs. 3,300,000 at June 30, 2015.

Lecture # 4 (IAS 36)	**Lecture # 24 (Over All)**

Concepts Discussed

1. Indicators of Impairment
2. Discussion of Past paper 3 (page 811)

Home Work

- Past paper 3 (page 811)