

Tutorial 4

LKAS 36: Impairment of Assets

Exercise 1

ABC PLC acquired a machine for Rs.250,000 on 1 April 2013. It depreciated the asset at 10% p.a. on a straight-line basis. On 31 March 2015, ABC PLC conducted an impairment test on the asset. It determined that the asset could be sold to other entities for Rs.154,000 with costs of disposal of Rs.2,000. Management expect to use the machine for the next four years with expected cash flows from use of the machine being as follows:

	(Rs.)
2016	80,000
2017	60,000
2018	50,000
2019	40,000

The rate of return expected by the market on this machine is 8%.

Required

Assess whether the machine is impaired. If necessary, provide the appropriate journal entry to recognise any impairment loss.

Exercise 2

A business acquired a patent for Rs.3 million on 01.04.2012 and useful life of the patent is 20 years. On 01.04.2016 it was identified that the value in use and fire value less cost to sell of this patent are Rs.2 million and Rs.1.9 million respectively.

Required:

- (a) Show the extracts of statement of profit or loss for year ending 31.03.2016 and 31.03.2017.
- (b) Show the extracts of statement of financial position as at 31.03.2016 and 31.03.2017.

Exercise 3

XYZ PLC reported the following assets in its statement of financial position at 31 March 2017:

	Rs.
Plant -cost	800,000
-Accumulated depreciation	(240,000)
Land	300,000

Patent	240,000
Office equipment-cost	620,000
- Accumulated depreciation	(340,000)
Inventory	220,000
Cash and cash equivalents	<u>180,000</u>
	<u>1,780,000</u>

The recoverable amount of the entity was calculated to be Rs.1,660,000. The fair value less costs of disposal of the land was Rs.280,000.

Required

Prepare the journal entry for any impairment loss at 31 March 2017.

Exercise 4

A plant purchased on 01.04.2012 for Rs.1,000,000 was estimated to have a useful life of 10 years. The fair value of this plant on 01.04.2014 was Rs. 600,000 subject to 5% cost to sell. It was estimated on this date that expected future cash flows of Rs.640,000, if the asset uses in the business continuously. However, the recoverable amount of this plant as at 01.04.2015 was Rs. 750,000.

Required:

- Show the extracts of statement of profit or loss for year ending 31.03.2013, 31.03,2014, 31.03,2015 and 31.03.2016.
- Show the extracts of statement of financial position as at 31.03.2013, 31.03,2014, 31.03,2015 and 31.03.2016.