

**AUDIT UPDATE**

**Impairment of Assets &  
Financial Assets**



## IMPAIRMENT STUDY OF ASSETS AND FINANCIAL ASSETS

### Why is the need for an Impairment Study?

#### A. True and Fair View

- For the purpose of statutory audit of FY 2019-2020, Companies are required to provide relevant documentation and records pertaining to assessment of Impairment and in case any non-compliance is identified, the Audit Report (Standalone and Consolidated) may contain relevant disclosure in this regard.

#### B. Compliance with INDAS/AS

- This is an annual exercise for compliance with the principles of Ind AS 36/AS 28.
- The company's operations are significantly impacted by the Covid-19 pandemic and company should undertake an assessment of impact on the recoverable value of its assets in accordance with the principles of Ind AS 36/AS 28/Ind AS 109/AS 13.

### What is Impairment?

An asset is impaired when its carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

### What Assets may be Impaired?

- Property, Plant & Equipment, Intangibles Assets including goodwill
- Investment in Subsidiaries / Joint Ventures / Associates
- Financial Assets including Inventory, Trade Receivables, Right of use assets, Debt and Equity Investments

### What are the internal and external indications that an impairment loss may have occurred due to impact of COVID-19 on all of its assets?

Changes in the economy causing an increase in labor cost, raw materials etc;

- Decline in performance i.e. net cash flows of the asset or CGU (Cash Generating Unit);
- Decline in market value of the asset;
- Reduction in demand of Goods and Services;

- Government restrictions (Indian/other countries) having a negative impact on Export/ Import of goods;
- Major restructuring in business i.e. reshuffling of products, segments, acquisition of new assets, etc. due to which existing assets of the company have no use;

### What assistance business organization requires while preparing Financial Statements?

Service Area	Key focus areas
<b>Impairment Study (in accordance with IND AS 36/AS 28)</b>	<ul style="list-style-type: none"> <li>➤ <b>Impairment Assessment of Non-Financial Assets</b> (Property, Plant &amp; Equipment), Right of use assets</li> <li>➤ <b>Impairment Assessment of Investment</b> in Subsidiary, Joint Venture and Associates.</li> <li>➤ <b>Impairment Assessment of Intangibles Assets</b> including goodwill</li> <li>➤ <b>Impairment Assessment of Inventory, Trade Receivables</b></li> <li>➤ <b>Impairment Assessment of Debt and Equity Investments</b></li> </ul>

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