# IND AS 36
## IMPAIRMENT OF ASSETS

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**LECTURE NO:** \( \) **DATE:** \( \) / / **16.0**
I. **Objective**

To prescribe the procedure that an entity applies to ensure that its assets are carried at no more than their recoverable amount. The standard also specifies when an entity should reverse the impairment loss & prescribes the disclosures. Assets recognised in the books of accounts represents the future economic benefits expected out of it, accordingly they are to be measured as per the benefits that are embodied in the assets. Hence any decrease in the amount of benefit expected out of asset should be reflected in the books of account by decreasing the value of asset and thus giving more realistic picture to the readers of financial statements. Therefore, if the recoverable amount of asset is less than carrying amount of the asset then any excess over and above recoverable amount is written off as impairment loss.

II. **Scope**

This standard is not applicable to following:

1. Inventories (IND AS 2)
2. Contract assets and assets arising from cost to obtain or fulfill a contract that are recognised in accordance with IND AS 115, Revenue from contracts with customers.
3. Financial Assets that are within the scope of IND AS 109, Financial Instruments.
4. Deferred Tax Asset (see IND AS 12 Income Taxes)
5. Assets arising from employee benefits (see Ind AS 19, Employee Benefits);
6. Biological assets related to agricultural activities as per IND AS 41 Agriculture.
7. Deferred acquisition cost & intangible assets arising from an insurers contractual rights under insurance contracts within scope of IND AS 104 Insurance Contracts &
8. Non-current assets classified as held for sale, as per IND AS 105
9. This Standard applies to financial assets classified as:
   a. subsidiaries, as defined in Ind AS 110, Consolidated Financial Statements;
   b. associates, as defined in Ind AS 28, Investments in Associates and Joint Ventures &
   c. joint ventures, as defined in Ind AS 111, Joint Arrangements.
III. **Timing**

1. The Assets is tested for impairment only, if there are indications, that the asset may be impaired. The Indicators are as follows:

   a. **External Indicators**
      
      i. **Market value** of asset has *declined* more than that was expected.
      
      ii. Significant *changes* have taken place in technology, market condition, economic environment, legal regulation etc and which has adverse effect on the entity.
      
      iii. Market *Interest rate* have increased and has an adverse effect on entity.
      
      iv. Carrying amt of net asset, is more than the market capitalisation.

   b. **Internal Indicators**
      
      i. Observable obsolescence & physical damage.
      
      ii. Use of asset has significantly changed in extent & manner in which it was previously used.
      
      iii. Internal indications that economic performance of asst is or will be worse than expected e.g *continuous cash Losses*
      
      iv. Investor recognises a dividend from the Investments and the evidences available indicate that, the investment in SFS exceeds the carrying amount of Investees net assets, including goodwill, in CFS.
      
      v. Dividend exceeds total comprehensive income of subsidiary, JV or associate.

2. **Exceptions**

   a. **Any intangible asset, with indefinite life:** As per IND AS - 38 any intangible Asset with *indefinite life* is not subject to amortisation. Thus, the asset will always be shown of it's carrying amount and would *not* reflect the actual benefit to be received out of it. Hence to ensure, that assets are carried at their carrying amount or recoverable amt which is less, they are Subject to *annual* impairment testing.

   b. **Goodwill created in the process of business combination:** As per IND AS 103 Goodwill created in business combination is *not* subject to amortisation and hence it is subject to annual impairment testing.
c. any intangible Asset i.e. not available for use (intangible Asset under Development phase): the true benefits to be received cannot be accurately determine till it is ready for it's intended use, hence to ensure that such assets are not disclose at a value more than their recoverable amount, their subject to annual impairment till they become ready for their use.

IV. Measurement

1. Impairment loss is Excess of carrying amount over its recoverable amount.

\[
\text{Impairment Loss} = \text{Carrying Amount} - \text{Recoverable Amount}
\]

2. Carrying Amount is the amount at which the assets are recognised after **deducting** accumulated depreciation and accumulated impairment loss.

3. Recoverable amount **higher** of Fair value less cost to sell and value in use.

4. Fair value is 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.

5. Cost to sell are the direct **incremental** cost, incurred in bringing the asset in sellable condition e.g. Legal cost, professional fees, stamp duty or similar transaction taxes, cost of removing the asset. However, it excludes termination benefits, cost associated with re-organizing the business, following the disposal of an asset.

6. Value in use is the **present value** of future cash flow expected to be derived from the use of asset and its ultimate disposal.

7. Calculation of Value in use is done using following steps:

A. Estimate future cash flows to be derived from continuing use of assets & its ultimate disposal.

B. Applying appropriate discount rate to those future cash flows

A. Estimating future cash flow

1. The basis of cash flow projections should re-present management best estimate of range of economic condition that will exist over the remaining useful life of an asset.
2. Cash flow should be based on the management's recent budget or forecast approved by management but should **exclude**:

a. Any estimated future cash inflow or outflows, expected to arise from **future restructuring** (Refer IND AS - 37) to which entity is **not committed**.

b. Any **savings** in outflows that may arise from improving or enhancing the assets performance. *i.e. the projections should be done based on the current condition of the asset. (Projections based on budget or forecast should / shall cover a period of 5 Yrs unless a longer period can be Justified).*

c. Projections of cash flow beyond the period of most recent budget or forecast (generally 5 yrs) should be based on **steady / negative growth rate**, unless a increasing rate can be justified, however the growth rate shall **not exceed**, long-term average growth rate of product, industry or country or countries of operations.

d. **Composition** of future cash flows

i. Projections of cash inflows from continuing use.

ii. Projections of cash outflows that are necessary to generate cash inflows, and can be directly attributed or allocated on a reasonable and consistent basis to the asset.

iii. Net cash flow, if any, to be received or paid for Disposal of asset at end of it's useful life.

iv. Estimate future cash flow shall **not include**

   1. Cash flow from **financing activity**.
   2. **Income tax** receipts and payments.

v. Either cash flows or a Discount rate, should reflect the effect of General **inflation**.

B. **Discounting rate** should be **pre-tax** rate, that reflects current market assessment of time value of money and the risk specific to assets for which cash flows are estimated *i.e. it is the return the investor would require if they were to choose an investment would generate cash flows of amount, timing and risk equivalent to those that entity expects to derive from asset*. This rate is estimated from rate implicit in the current market transaction for similar asset or from WACC of the listed entity that has a single asset under review.
V. **Recognition**

1. Impairment Loss should be debited to P&L in year of incurrence.

2. For *revalued* assets Impairment Loss should be *first* adjusted against balance in *revaluation reserves* of that asset & *excess* loss if any will be debited to P&L.

3. At the time of revaluation, the revalued asset may be impaired, if the Asset's fair value is the market value, this is because the only difference between the fair-value and fair-value less cost to sell, is the direct incremental cost, that will be incurred for sale.

4. If the cost of sale is *negligible* than asset is not subject to impairment however if it is *material*, then asset may be subject to impairment. *e.g* If the Asset is purchased at the cost of ₹ 80,000 and after depreciating for 3 yrs the carrying amount is ₹ 56,000, if the asset is to be revalued at ₹ 70,000 and assuming the cost of sale is ₹ 500 then the fair value less cost to sale would be ₹ 69,500 i.e. cost to sell being negligible the fair value less cost to sell and market price are approximately the same, hence no impairment testing is required, however if cost to sell is ₹ 20,000 then fair value cost to sell would be ₹ 50,000, which is less than the present carrying is hence the asset and subject to impairment testing.

5. **Depreciation / Amortisation.** after impairment Loss should be on the *revised amount* of the asset is over the remaining useful life of the asset.

6. If Impairment Loss is *greater* than carrying amount of an asset the entity shall recognised *Liability* if and only if that is *required* by another standard.
VI. **Cash Generating Units (CGU)**

1. An Individual assets may be tasted impairment only if
   a. **Recoverable amount** of asset is calculable (i.e. value in use can be calculate) &
   b. Asset is capable of generating cash flows which are largely *independent* of other Assets.

2. If above is not possible, then **next smallest group** of assets, that include the asset which may be impaired should be identified and such group should be generating cash flows which are largely *independent* of other assets or group of assets, such a group of asset is called cash generating unit (CGU) & it should subject to impairment testing. It may be a plant, location, operating segments or even the entity as a whole.

3. All discussion done since the beginning in relation to particular asset are equally applicable to C.G.U.

4. If **active market** exists for output of asset or CGU, then that asset or CGU shall be identified as a **separate** from other assets or CGU, even if some or all of output of asset or CGU is consumed internally.

5. For calculation of value in use, management must consider estimated **future price**, that could be achieved in an **arm’s length** transaction and not actual transfer price.

6. If CGU is impaired then loss is allocated to **all assets** of unit (group of units) in **pro rata** on the basis of carrying amount of each asset in unit (group of units).

7. In allocating an impairment loss, an entity shall **not** reduce carrying amount of an asset below the **highest** of:
   a. its fair value less costs of disposal (if measurable); &
   b. its value in use (if determinable); &
   c. zero.
VII. Corporate Assets

Corporate Assets do not generate cash flows, which are Largely independent of other assets or a group of assets and their carrying amount cannot be fully attributed to a particular C.G.U. hence impairment testing of such corporate assets are to be done as follows.

Corporate assets are allocable

1. Allocate the corporate assets over the CGU in the ratio of their present carrying amount.
2. Calculate impairment Loss considering revised carrying amount, including corporate Assets.
3. Impairment Loss if any should be apportioned over corporate assets and CGU in ratio of their carrying amounts.

Corporate assets are not allocable

1. Calculate impairment for CGU's as usual excluding corporate assets & get revised carrying amount of CGU
2. Calculate the Impairment Loss of a larger CGU include the non-allocated corporate assets.
3. Impairment Loss if any should be allocable corporate asset only.

VIII. Goodwill

1. Goodwill represents assets which are not separately identified & recognised, goodwill does not generate cash flow independently of other assets or group of assets and often it contributes to cash flow of multiple cash generating units, hence generally for the purpose of impairment testing, goodwill acquired from the business combination shall, from acquisition date, be allotted to each of the acquired CGU or group of CGU's that are expected to benefit from it.

2. If goodwill has been allocated to a CGU and entity disposes of an operation within that unit, the goodwill associated with the operation disposed of shall be included in the carrying amount of the operation when determining the gain or loss on disposal; and measured on the basis of the relative values of the operation disposed of and the
portion of the cash-generating unit retained, unless the entity can demonstrate that some other method better reflects the goodwill associated with operation disposed of.

3. **Goodwill is allocable**

   1. Allocate goodwill over the CGU’S in ratio of their CA on date of amalgamation.
   2. Calculate impairment Loss considering revised amount of C.G.U’S
   3. Impairment Loss if any should be first adjusted against goodwill allocated to that CGU and then the balance loss should be adjusted against the carrying amount of CGU’S

**Goodwill is not allocable**

   1. Calculate the impairment Loss of CGU’S as usual. (excluding Goodwill)
   2. Calculate the carrying amount of Larger CGU or business as a whole to which Goodwill can be allocated.
   3. Calculate the impairment loss of such larger CGU or business as a whole
   4. Impairment Loss if any should be adjusted against goodwill only.

2. **Explanation**
   a. If the assets constituting the CGU to which goodwill has been allocated are tested for impairment at the same time as the unit containing the goodwill, they shall be tested for impairment **before** the unit **containing goodwill**.
   b. Similarly, if the CGUs constituting a group of CGUs to which goodwill has been allocated are tested for impairment at the same time as the group of units containing the goodwill, the individual units shall be tested for impairment before the group of units containing the goodwill.
   c. At the time of impairment testing a CGU to which goodwill has been allocated, there may be an indication of an impairment of an asset within the unit containing goodwill. In such circumstances, the entity tests the asset for impairment first, and recognises any impairment loss for that asset before testing for impairment the cash-generating unit containing the goodwill.
   d. Similarly, there may be an indication of an impairment of a cash-generating unit.
within a group of units containing the goodwill. Then the entity tests the cash-
generating unit for impairment first, and recognises any impairment loss for that
unit, before testing the group of units to which goodwill is allocated.

IX. **Reversal**

1. Assets *other than goodwill*:
   a. At the end of year, the assumption and the indication based on which impairment loss
      was recognised, may no longer exist or would have reduced, then the recoverable
      amount of assets should be re-calculated based on the new circumstance and check
      should be done for the reversal of impairment Loss.
   b. Increasing carrying amount of assets due to reversal of impairment Loss, **does not**
      amount to *revaluation*, as the reversal is in line with the historical cost accounting.
   c. Reversal of impairment Loss should be *recognised* immediately in P&L.
   d. If impairment Loss was previously written off against *revaluation reserves* then
      reversal should restore revaluation reversal & *excess* if any should be credited to P&L.
   e. Reversal of impairment loss should be treated as *change* in accounting estimate.
   f. After reversal Depreciation/Amortization will be on revised carrying amount and for
      remaining useful life of asset.
   g. Reversal of impairment Loss should be measured lower of:
      i. after reversal, revised carrying amt shall not exceed the carrying amt that would have
         been, (Net of Depreciation or amortisation) had no impairment Loss be recognised.
         Present carrying amount XXX
         Less: Carrying amount had there been no IL XXX
         ‘.’. Amount of IL to be reversed XXX
      ii. after reversal CA of CGU shall not exceed its recoverable amount on date of reversal.
         Present carrying amount XXX
         Less: Recoverable amount on date of reversal XXX
         ‘.’. Amount of IL to be reversed XXX
2. **Reversal of Impairment Loss of Goodwill.**

a. Impairment Loss recognised for goodwill shall *not* be reversed in subsequent periods.

IND AS - 38 Accounting for intangibles, does *not permit* recognition of *internally generated* goodwill therefore if the reversal impairment loss for goodwill were permitted an entity would need to establish the extent to which a subsequent increase in recoverable amount of goodwill is attributed to recovery of acquired goodwill rather than increase in internally generated goodwill. As the acquired goodwill and internally generated goodwill *contribute jointly* to the same cash flows and *any increase* in recoverable amount of goodwill acquired is indistinguishable from internally generated goodwill, this is true even if the specific event that cause the impairment Loss has reversed. Hence the reversal of impairment loss of goodwill would amount to recognition of self generated goodwill which is disallowed and accordingly reversal is disallowed. A reversal of an impairment loss for a cash-generating unit shall be allocated to the assets of the unit, except for goodwill, pro rata with the carrying amounts of those assets.

X. **Disclosures**

1. Impairment Loss charged to P&L
2. Impairment Loss credited to P&L (reversals)
3. Impairment Loss on revalued asset charged to other comprehensive Income.
4. Reversal of impairment Loss of revalued asset recognised in OCI
5. events is circumstances that Let to impairment Loss or it's reversal.
6. For an Individual asset, nature of asset is operating segment it belongs to.
7. For CGUS Description of CGU
8. weather the recoverable amount is value in use or fair value less cost to sell.
9. If recoverable amount represents fair value less cost to sell, then the basis for Determination should be disclosed.
10. Description of how the value in use is determined.
XI. **Practical Questions**

**Impairment Loss**

**Q1.** X limited is having a plant (asset) carrying amount of which is Rs 100 lakhs on 31.03.2019. Its balance useful life is 5 years and residual value at the end of five years is Rs 5.00 lakhs. Estimated future cash flows from using the plant in next 5 years are:

<table>
<thead>
<tr>
<th>For the year ended on</th>
<th>Estimated Cash flows (₹ in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.03.2020</td>
<td>50.00</td>
</tr>
<tr>
<td>31.03.2021</td>
<td>30.00</td>
</tr>
<tr>
<td>31.03.2022</td>
<td>30.00</td>
</tr>
<tr>
<td>31.03.2023</td>
<td>20.00</td>
</tr>
<tr>
<td>31.03.2024</td>
<td>20.00</td>
</tr>
</tbody>
</table>

Calculate ‘value in use’ for plant if applicable discount rate is 10% and also calculate the recoverable amount if the net selling price of plant on 31.03.2019 is ₹ 60.00 lakhs.

**Q2.** NDA limited acquired a machine for ₹ 32,00,000 on 30.11.2018. The machine has five years life with ₹ 5 lakhs salvage value and was depreciated using straight-line method. On 31.03.2016 a test for impairment reveals the following:

- Present value of future cash flow: ₹ 1,350,000
- Net selling price: ₹ 15,50,000
- Salvage value estimated: Nil

Assuming loss for impairment is recognized for the year 31.03.2019. What should be the depreciation expense for the year ended 31.03.2020?

**Q3.** Uttarakhand Industries limited gives the following estimates of cash flows relating to fixed asset on 31.12.2019. The discount rate is 15%.

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow (in lakhs)</td>
<td>2000</td>
<td>3000</td>
<td>3000</td>
<td>4000</td>
<td>2000</td>
</tr>
</tbody>
</table>
Residual value at the end of 2024 is ₹ 500 lakhs. Fixed Asset purchased on 01.01.2017 for ₹ 20,000 lakhs. Useful life is 8 years. Net selling price ₹ 10,000 lakhs.

**Calculate on 31.12.2019:**

1. Carrying amount at the end of 2019
2. Value in use on 31.12.2019
3. Recoverable amount on 31.12.2019
4. IL recognised for the year 2019
5. Revised carrying amount
6. Depreciation charge for 2019

**Q4.** NDA Limited acquired plant on 1.4.2013 for Rs 50.00 lakhs having 10 years useful life and provides depreciation on SLM with nil residual value. On 1.4.2018, NDA limited revalued the plant at Rs 29.00 lakhs against its book value of Rs 25.00 lakhs and credited Rs 4.00 lakhs to revaluation reserve. On 31.03.2020, the plant was impaired and its recoverable amount on this date was Rs 14.00 lakhs. Calculate the impairment loss and how this loss should be treated in the accounts.

**Q5.** Saturn India Ltd is reviewing one of its business segments for impairment. The carrying value of its net assets is 40 million. Management has produced two computations for the value-in-use of the business segment. The first value of ₹ 36 million excludes the benefit to be derived from a future reorganization, but the second value of ₹ 44 million includes the benefits to be derived from the future reorganization. There is not an active market for the sale of the business segments. Whether the business segment needs to be Impaired?

**Q6.** NDA limited paid up capital is ₹ 50 crores divided into 5 crore share of 10. Each share is being quoted in share market at ₹8 each. A total asset of company is ₹ 100 crores and liabilities ₹ 25 crores. Calculate impairment loss based on external factors from the following details of an asset, find out:

(a) Impairment loss and its treatment.

(b) Current year depreciation for the year end. Particulars of assets:
Cost of asset  ₹ 56 lakh
Useful life  10 years
Salvage value  Nil
Carrying value at the beginning of the year  ₹ 27.30 lakh
Remaining useful life  3 years
Recoverable amount at the beginning of the year  ₹ 12 lakh
Upward revaluation done in last year  ₹ 14 lakh

Value in Use

Q7. Cash flow is ₹ 100, ₹ 200 or ₹ 300 with probabilities of 10%, 60% and 30%, respectively. Calculate expected cash flows.

Q8. Cash flow of ₹ 1,000 may be received in one year, two years or three years with probabilities of 10%, 60% and 30%, respectively. Calculate expected cash flows assuming applicable discount rate of 5%, 5.25% & 5.5% in year 1, 2 & 3, respectively.

Q9. Calculate expected cash flows in each of the following cases:
   (a) the estimated amount falls somewhere between ₹ 50 and ₹ 250, but no amount in the range is more likely than any other amount.
   (b) the estimated amount falls somewhere between ₹ 50 and ₹ 250, and the most likely amount is ₹ 100. However, the probabilities attached to each amount are unknown.
   (c) the estimated amount will be ₹ 50 (10 per cent probability), ₹ 250 (30 per cent probability), or ₹ 100 (60 per cent probability).

Q10. Slaughter is testing machine, which makes a product called mini, for impairment. It has compiled the following information in respect of the machine:
Amount (₹)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling price of a mini</td>
<td>100</td>
</tr>
<tr>
<td>Variable cost of the production</td>
<td>70</td>
</tr>
<tr>
<td>Fixed overhead allocation per unit</td>
<td>10</td>
</tr>
<tr>
<td>Packing cost per unit</td>
<td>1</td>
</tr>
</tbody>
</table>

All costs and revenues are expected to inflate at 3% per annum. Volume growth is expected to be 4% per annum. 1000 units were sold last year. This is in excess of the long-term rate of growth in the industry. The management of Slaughter has valid reasons for projecting this level of growth. The machine originally cost ₹ 4,00,000 and was supplied on credit terms from a fellow group entity. Slaughter is charges ₹ 15,000 interest each year on this loan. Future expenditures:

1. In 2 years' time the machine will be subject to major servicing to maintain its operating capacity. This will cost ₹ 10,000
2. In 3 years' time the machine will be modified to improve its efficiency. This improvement will cost ₹ 20,000 and will reduce unit variable cost by 15%.
3. The asset will be sold in 8 years; time. Currently the scrap value of machine of a similar type is ₹ 10,000
4. All values are given in real terms (to exclude inflation).

Explain which cash flows should be included, and which excluded, in the calculation of the value in use of the machine.

Q11. On 31st March, 20X1, XYZ Ltd. makes following estimate of cash flows for one of its asset located in USA:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>20X1-20X2</td>
<td>US $ 80</td>
</tr>
<tr>
<td>20X2-20X3</td>
<td>US $ 100</td>
</tr>
<tr>
<td>20X3-20X4</td>
<td>US $ 20</td>
</tr>
</tbody>
</table>

Following information has been provided:
<table>
<thead>
<tr>
<th>Particulars</th>
<th>India</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicable discount rate</td>
<td>15%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Exchange rates are as follows as on 31/03/20X1 ₹45/USD

<table>
<thead>
<tr>
<th>As on March, 20X2</th>
<th>Expected Exchange rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>31st March, 20X2</td>
<td>₹ 48/US $</td>
</tr>
<tr>
<td>31st March, 20X3</td>
<td>₹ 51/US $</td>
</tr>
<tr>
<td>31st March, 20X4</td>
<td>₹ 55/US $</td>
</tr>
</tbody>
</table>

Calculate value in use as on 31st March, 20X1.

**CGU**

Q12. A mining enterprise owns a private railway to support its mining activities. The private railway could be sold only for scrap value and the private railway does not generate cash inflows from continuing use that are largely independent of the cash inflows from the other assets of the mine. Identify CGU?

Q13. A bus company provides services under contract with a municipality that requires minimum service on each of five separate routes. Assets devoted to each route & cash flow from each route can be identified separately. One of routes operates at a significant loss.

Q14. A publisher owns 150 magazine titles of which 70 were purchased and 80 were self-created. The price paid for a purchased magazine title is recognised as an intangible asset. The costs of creating magazine titles and maintaining the existing titles are recognised as an expense when incurred. Cash inflows from direct sales and advertising are identifiable for each magazine title. Titles are managed by customer segments. The level of advertising income for a magazine title depends on the range of titles in the customer segment to which the magazine title relates. Management has a policy to abandon old titles before the end of their economic lives and replace them.
immediately with new titles for the same customer segment. What is the cash-generating unit for an individual magazine title?

Q15. A significant raw material used for plant Y’s final production is an intermediate product bought from plant X of the same entity. X’s products are sold to Y at a transfer price that passes all margins to X. 80% of Y’s final production is sold to customers outside of the entity. 60% of X’s final production is sold to Y and the remaining 40% is sold to customers outside of the entity. For each of the following cases, what are the cash-generating units for X and Y?

a. If X could sell the products it sells to Y in an active market and internal transfer prices are higher than market prices, what are the cash-generating units for X and Y?

b. If there is no active market for the products X sells to Y, what are the cash-generating units for X and Y?

Q16. G Limited purchased a machine on 1.1.2019 for ₹ 50.00 lakhs having useful life of five years. On 31.12.2020 its carrying amount is ₹ 30.00 lakhs. Due to fire in the factory, there is some damage to the machinery but still it is working. Its net selling price on 31.12.2020 is ₹ 22.00 lakhs. The machine does not generate independent cash inflows from use. The smallest group of asset that includes this machine generates cash inflows largely independent of other assets. The carrying amount of the group of assets to which this machine belongs is ₹ 200.00 lakhs and the recoverable amount of this group of assets (cash generating unit) to which this machine belongs is ₹ 220.00 lakhs. Calculate the impairment loss for the machine.

Q17. A company operates a mine in a country where legislation requires that the owner must restore the site on completion of its mining operations. The cost of restoration includes the replacement of the overburden, which must be removed before mining operations commence. A provision for the costs to replace the overburden was
recognised as soon as the overburden was removed. The amount provided was recognised as part of the cost of the mine and is being depreciated over the mine’s useful life. The carrying amount of the provision for restoration costs is ₹ 500, which is equal to the present value of the restoration costs.

The entity is testing the mine for impairment. The cash-generating unit for the mine is the mine as a whole. The entity has received various offers to buy the mine at a price of around ₹ 800. This price reflects the fact that the buyer will assume the obligation to restore the overburden. Disposal costs for the mine are negligible. The value in use of the mine is approximately ₹ 1,200, excluding restoration costs. The carrying amount of the mine is ₹ 1,000.

Q18. Reliance Ltd. is a multi-product manufacturing company, its corporate office is housed in a building, as the area of building is large, the Reliance Ltd. has let out 1/3 area of building at a monthly rent of ₹ 50 lakhs, the lease agreement with tenant is for next 5 years. Is the building cash-generating unit? If not what is the cash-generating unit of the building?

Q19. In north campus there are ten colleges under Delhi University having their own canteens, which provides food and beverage to the students and staff. Under a policy of the University the contract of running all the ten college canteens will be given to only one contractor. Out of these 7 canteens are profitable but 3 are loss making. Identify cash generating units.

Goodwill

Q20. XYZ Limited has a cash-generating unit ‘Plant A’ as on 1st April, 20X1 having a carrying amount of ₹ 1,000 crore. Plant A was acquired under a business combination and goodwill of ₹ 200 crore was allocated to it. It is depreciated on straight line basis. Plant A has a useful life of 10 years with no residual value. On 31st March, 20X2,
Plant A has a recoverable amount of ₹ 600 crore. Calculate the impairment loss on Plant A. Also, prescribe its allocation as per Ind AS 36.

Q21. NDA corporation acquired Smith limited’s business on 31.3.2017 for ₹ 5000.00 lakhs. The details of acquisition are as under:

- Fair value of identifiable asset: ₹ 4000.00 lakhs
- Goodwill: ₹ 1000.00 lakhs

The anticipated useful life of acquired asset is 8 years. NDA uses SLM of depreciation with no residual value. On 31.3.2019, NDA estimated that significant decline in production due to changed government policies. Net selling price of identifiable asset is not determinable. Cash flows forecast based on recent financial budgets for next six years after considering changed government policies are given below. Incremental financing cost is 10%, which represent current market assessment of time value of money.

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flow (₹ in lakhs)</td>
<td>700</td>
<td>700</td>
<td>700</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
</tbody>
</table>

Acquired business is a cash-generating unit. Required 1. Value in use
2. Impairment loss 3. Revised carrying amount of assets on 31.03.2019

Q22. On 31.03.2017, NDA limited acquired Induga limited for ₹ 600.00 lakhs. Induga limited has three cash generating units, X, Y and Z with net fair values of ₹ 240 lakhs, ₹ 160 lakhs and ₹ 80 lakhs respectively. NDA limited recognizes goodwill of ₹ 120.00 lakhs. For the accounting year ended 31.03.2019, X unit incurred substantial loss. Its recoverable amount is estimated to be ₹ 270.00 lakhs. Carrying amount of different cash generating units are as under:

- X: ₹ 260 lakhs
- Y: ₹ 240 lakhs
- Z: ₹ 160 lakhs
- Goodwill: ₹ 24 lakhs
₹ 684 lakhs

Calculate impairment loss to be recognized in financial statements if goodwill can be allocated on reasonable and consistent basis to cash generating unit.

Q23. If in the illustration above, goodwill cannot be allocated on reasonable basis to cash generating unit X, the recoverable amount of all the three cash generating unit which is immediately larger cash generating unit to which goodwill can be allocated is ₹ 680.00 lakhs. Calculate the impairment loss.

Q24. An entity sells for ₹ 100 an operation that was part of a cash-generating unit to which goodwill has been allocated. The goodwill allocated to the unit cannot be identified or associated with an asset group at a level lower than that unit, except arbitrarily. The recoverable amount of the portion of the cash-generating unit retained is ₹ 300.

Corporate Assets

Q25. Earth Infra Ltd has two cash-generating units, X and Y. There is no goodwill within the units’ carrying values. The carrying values of the CGUs are CGU A for ₹ 20 million and CGU B for ₹ 30 million. The company has an office building which it is using as an office headquarter and has not been included in the above values and can be allocated to the units on the basis of their carrying values. The office building has a carrying value of ₹ 10 million. The recoverable amounts are based on value-in-use of ₹ 18 million for CGU A and ₹ 38 million for CGU B. Determine whether the carrying values of CGU A and B are impaired.

Q26. U limited has 3 cash generating units, X, Y and Z. Carrying amount on 31.03.2019 of X, Y and Z is ₹ 400.00 lakhs, ₹ 600.00 lakhs and ₹ 800.00 lakhs respectively. Due to adverse technological changes effecting U limited, the company conduct impairment test of each of its cash generating units on 31.03.2019. Company has corporate assets
as head office building of ₹ 600.00 lakhs and Research and Development centre of ₹ 200.00 lakhs. Carrying amount of building can be allocated on reasonable basis, but R & D centre cannot be allocated on reasonable basis to X, Y and Z cash generating units. The remaining useful life of X unit is ten years and Y and Z is 20 years. The HO assets are depreciated on SLM. Net selling price of each cash-generating unit is not determinable. Hence the recoverable amount is based on ‘value in use’. 15% discount rate fairly indicates time value of money.

Calculate impairment loss to be recognized in financial statement for the year ended 31.03.2019 and allocation of impairment loss. Also calculate the revised carrying amount of assets of all cash generating units. Future cash flow for X, Y & Z and for U Limited as a whole at the end of 31.03.2019 is below (₹ in lakhs)

<table>
<thead>
<tr>
<th>Year</th>
<th>X</th>
<th>Y</th>
<th>Z</th>
<th>U limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5</td>
<td>140</td>
<td>100</td>
<td>120</td>
<td>370</td>
</tr>
<tr>
<td>6-10</td>
<td>200</td>
<td>130</td>
<td>240</td>
<td>650</td>
</tr>
<tr>
<td>11-20</td>
<td>----</td>
<td>82</td>
<td>230</td>
<td>446</td>
</tr>
</tbody>
</table>

Q27. Sun Ltd is an entity with various subsidiaries. The entity closes its books of account at every year ended on 31st March. On 1st July, 20X1, Sun Ltd acquired an 80% interest in Pluto Ltd. Details of the acquisition were as follows:

Sun ltd acquired 800,000 shares in Pluto Ltd by issuing two equity shares for every five acquired. The fair value of Sun Ltd’s share on 1st July, 20X1 was ₹ 4 / share and fair value of a Pluto’s share was ₹ 1.40 / share. Costs of issue were 5% / share. Sun Ltd incurred further legal & professional costs of ₹ 100,000 that directly related to acquisition. The fair values of the identifiable net assets of Pluto Ltd at 1st July, 20X1 were measured at ₹ 1.3 million. Sun Ltd initially measured the non-controlling interest in Pluto Ltd at fair value.

<table>
<thead>
<tr>
<th>Unit</th>
<th>Carrying value (before goodwill allocation)</th>
<th>Recoverable amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>₹000</td>
<td>₹000</td>
<td></td>
</tr>
</tbody>
</table>
Required:

(i) Compute carrying value of goodwill arising on acquisition of Pluto Ltd in consolidated Balance Sheet of Sun Ltd at 31st/03/20X4 following impairment review.

(ii) Compute total impairment loss arising as a result of impairment review, identifying how much of this loss would be allocated to the non-controlling interests in Pluto Ltd.

Reversal of Impairment Loss

Q28. U limited which is in the business of manufacturing and export of its product. Sometime, back in 2017, the government put the restriction on export of goods exported by U limited. Due to that restriction, U limited impaired its assets. U limited acquired at the end of 2013 ₹ 4000.00 lakhs identifiable assets and paid ₹ 6000.00 lakhs, balance is treated as goodwill. The useful life of identifiable assets are 15 years and depreciated on SLM. When Government put the restriction at the end of 2017, the company recognized the impairment loss by determining the recoverable amount of assets of ₹ 2720.00 lakhs. In 2019, the Government lifted the restrictions imposed on the export and due to this favorable change, U limited re-estimate recoverable amount, which was estimated at ₹ 3420.00 lakhs. Required: calculation & allocation of impairment loss in 2017 & Reversal of an impairment loss and its allocation in 2019

Q29. A Ltd. purchased a machinery of ₹ 100 crore on 1st April, 20X1. The machinery has a useful life of 5 years. It has nil residual value. A Ltd. adopts straight line method of depreciation for depreciating the machinery. Following information has been provided as on 31st March, 20X2:

**Financial year** | **Estimated future cash flows (₹ in crore)**
---|---
20X2-20X3 | 15
20X3-20X4 | 30
Q30. Assuming in the above question, as on 31st March, 20X3, there is no change in the estimated future cash flows and discount rate. Fair value less costs to sell as on 31st March, 20X3 is ₹ 40 crore. How should it be dealt with under Ind AS 36?

Year | Est. cash flows (₹ in crore) | PVF @ 10% | Present value |
--- | --- | --- | --- |
20X3-20X4 | 30 | 0.9091 | 27.27 |
20X4-20X5 | 40 | 0.8264 | 33.06 |
20X5-20X6 | 10 | 0.7513 | 7.51 |
| | | | 67.84 |

Q31. A Ltd. purchased an asset of ₹ 100 lakh on 1st April, 20X0. It has useful life of 4 years with no residual value. Recoverable amount of the asset is as follows:

As on | Recoverable amount |
--- | --- |
31st March, 20X1 | ₹ 60 lakh |
31st March, 20X2 | ₹ 40 lakh |
31st March, 20X3 | ₹ 28 lakh |

Calculate the amount of impairment loss or its reversal, if any, on 31st March, 20X1, 31st March, 20X2 and 31st March, 20X3.

Investment in Subsidiary

Q32. On 1st April 20X1, Venus Ltd acquired 100% of Saturn Ltd for ₹ 4,0,00,000. The fair value of the net identifiable assets of Saturn Ltd was ₹ 3,20,00 and goodwill was ₹ 80,000. Saturn Ltd is in coal mining business. On 31st March, 20X3, the government has cancelled licenses given to it in few states. As a result Saturn’s Ltd revenue is estimated to get reduce by 30%. The adverse change in market place and regulatory conditions is an indicator of impairment. As a result, Venus Ltd has to
estimate the recoverable amount of goodwill and net assets of Saturn Ltd on 31st March, 20X3. Venus Ltd uses straight line depreciation. The useful life of Saturn’s Ltd assets is estimated to be 20 years with no residual value. No independent cash inflows can be identified to any individual assets. So the entire operation of Saturn Ltd is to be treated as a CGU. Due to the regulatory entangle it is not possible to determine the selling price of Saturn Ltd as a CGU. Its value in use is estimated by the management at ₹ 2,12,000.

Suppose by 31st March, 20X5 the government reinstates the licenses of Saturn Ltd. The management expects a favourable change in net cash flows. This is an indicator that an impairment loss may have reversed. The recoverable amount of Saturn’s Ltd net asset is re-estimated. The value in use is expected to be ₹ 3,04,000 and fair value less cost to disposal is expected to be ₹ 2,90,000.

Q33. Parent acquires an 80% ownership interest in Subsidiary for ₹ 2,100 on 1st April, 20X1. At that date, Subsidiary’s net identifiable assets have a fair value of ₹ 1,500. Parent chooses to measure the non-controlling interests as the proportionate interest of Subsidiary’s net identifiable assets. The assets of Subsidiary together are the smallest group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Since other cash-generating units of Parent are expected to benefit from the synergies of the combination, the goodwill of ₹ 500 related to those synergies has been allocated to other cash-generating units within Parent. On 31st March, 20X2, Parent determines that the recoverable amount of cash-generating unit Subsidiary is ₹ 1,000. The carrying amount of the net assets of Subsidiary, excluding goodwill, is ₹ 1,350. Allocate the impairment loss on 31st March, 20X2.
# IND AS 108
## OPERATING SEGMENTS

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---|---
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I. Objectives

The core principle of this standard is that an entity shall disclose information to enable the users of financial statement to evaluate the nature & financial effects of business activities in which it engages and economic environment in which it operates. Ind AS 108 requires an entity to disclose information to enable the stakeholders to have insight into the entity’s operations from the same perspective as that of its management. Profit and Loss A/c of an entity provides a single figure of its profit & Loss, however an entity may be operating in variety of products as well as in different geographical locations. Each such products or geographical location have different risks and rewards i.e. they impact the overall profit in different way, such impact can be understood by the management of the company but not by an outside investors i.e. there is no equity of information, hence in order to bring about equity of information segment reporting is done.

II. Scope

1. This Accounting Standard shall apply to companies to which Indian Accounting Standards (Ind ASs) notified under the Companies Act apply.

2. If an entity that is not required to apply this Ind AS chooses to disclose information about segments that does not comply with this Ind AS, it shall not describe the information as segment information.

3. If a financial report contains both the CFS of a parent that is within the scope of this Ind AS as well as the parent’s SFS, segment information is required only in the CFS.
III. **Operating Segments**

1. **Definition:** It is a *Component* of entity,
   
a. That *engages* in business activity which *may* earn revenue and incur expenses (revenues includes inter-segment transfer)

b. Who’s *operating* results are regularly *reviewed* by Chief Operating Decision Maker (CODM) about *resources* to be *allocated* to segments & *assess* their performance.

c. For which *discrete* financial Information will be available.

2. **Important points**

   a. The operating segment need *not earn* revenue but may be *consuming* resources of the enterprise or may require heavy *capital* expenditure which warrants for a close watch by top management, and then it may qualify as operating segment. *e.g.* Spare part department of entity may be supplying parts to other departments for captive consumption on cost basis but may require a huge maintenance cost, which may be reviewed by top management, hence spare parts department may qualify as operating segment.

   b. **CODM:** The term CODM identifies a *function* and *not* necessarily a manager with a specific *title*. The function being allocation of resources and assess the performance of operating segment often a CODM of entity is CEO, COO, but it can also be a group of executive directors. This approach helps the *investors* to *view* the business in same way *as* it is view by the *internal management*. this is in line with core principal as it brings about equity of information.

   c. **Identification of Operating Segments:** For the purpose of identifying operating segments internal financial reporting is to be studied. Generally, the *flow of information* within the entity Indicates how business is viewed by management and CODM *e.g.* If all the internal reporting is done based on *variety of product* that means the management perceives the *business risk* product wise or product wise risk is more *dominant* in the business. On other hand, if the business operates in
different **economic environments** (Geographical Locations) and the reporting is done location wise, then the management perceives the business risk location wise and segmental information shall be provided location wise.

Sometimes the **organisation structure** may indicate how the management looks at the business i.e. if the managers are appointed product-wise then segmental information is provided product-wise and if the managers are appointed location wise then the segmental info shall be provided location-wise.

In case of a **matrix organisational** structure where managers are responsible for variety of products and locations, segments information should be provided in such a way that it brings about equity of information i.e. segmentation should be done in line with the core principle of this IND AS.

3. **Aggregation Criteria:** Two or more segments may be aggregated into one if they have **similar economic characteristic** and are similar in each of the aspects:
   a. Nature of products or services
   b. Nature of production process
   c. Type or class of customers
   d. Methods used to distribute the product or services.
   e. If applicable, nature of regulatory environment e.g. Banking, Insurance etc.

4. **Reportable Segment:**
   1. An Entity shall report **separately** information about operating segment that:
      a. Is identified separately or aggregated as above AND
      b. It meets Quantitative Threshold Limits.
   2. **Quantitative Threshold Limits:**
      Segment may be reportable segment if **any of** the threshold limits are met.
      a. **Segment revenue** is 10% or more of total **segment** revenue. (Revenue includes both Internal as well as external revenues)
      b. **Segment results** (P&L) is 10% or more of total **segment** profit or segment loss whichever is higher in **absolute** amount.
Step 1. Calculate total profit of all profitable segment.

Step 2. Calculate total Loss of all Loss making segment.

Step 3. Consider higher of 2 in absolute amount, ignore whether it is a profit or Loss.

Step 4. The threshold limit would be 10% of Step 3.

c. **Segment Assets** are 10% or more of total **segment** Assets.

3. **Re – Aggregation:** If certain operating segments do not meet any of above limits, than entity may **aggregate** two or more such segment to produce a separate reportable segment. If they have **similar economic characteristics** and share a **majority** of aggregation criteria.

4. **Incidental / carry – forward segments:** If any operating segment was **reported** in previous year, as it meet any of the threshold limit, then such operating segment should be **reported** in current year **even** if it does not meet any of the threshold limit in current year, this is done in order to ensure **compatibility**.

5. **Check Condition:** If the **total external revenue** of reported operating segment is less than 75% of entities revenue (External revenue) then **additional** segments shall be **identified** as reportable until at least 75% of **entity’s** revenue is not include in reportable segment.

6. **Important points for reportable segment.**

   a. **Management** at its **own discretion** may identify certain operating segments as reportable if it perceives that it is necessary for understanding the business e.g A newly **introduce segments, which does not meet any of the threshold limits, but may be reported if the management thinks it is necessary to do so.**

   b. If an operating segments becomes **reportable** in current year as it meets any of the threshold limits, but was **not reported** in the **previous** year as it did not meet any of the threshold limit, then previous year segmental report should be **re-stated.** to include that segment for the purpose of **comparison.**
c. The segment that becomes reportable in order to meet 75% limit of entities revenue should also be reported in the next year even if he does not meet the threshold limit in next year, this is done to ensure comparability.

d. All the operating segment, which does not become report should be combine and disclose in "All other segments"

e. There is no practical limit of no segments to be reported as per this standard, however if the reportable segment increases above ten, then entity should consider, whether a practical limit has been reached.

IV. Disclosure

1. An Entity shall Disclose the following

A. General information.

B. Information above segment P&L, segment Assets and segment liabilities.

C. Reconciliation of total segment revenue segment results, segments Assets & segment liabilities to corresponding entity's amount.

A. General information.

1. Nature of products and services offered.

2. Different economic environment the business operates in.

3. A brief description about methods in which operating segment have been arrived, i.e. Disclose the basis on which the operating segments have been identified. E.g. whether operating segments are product wise or Location wise and how it is arrived.

4. A brief description about the basis on which the aggregation of operating segment is done.

B. Segment Results, segment Assets and segment liabilities.

The below mentioned details will be provided in segmental report if & only if they are regularly reviewed or considered in decision making by CODM.

1. Segment result.
a. Segment P&L
b. Revenue from external customer
c. Revenue from internal transfers
d. Interest revenue
e. Interest expenses
f. Depreciation and amortisation
g. Material items as per IND AS – 1. (exceptional items)
h. Tax expenses / Incomes
i. Share in P&L of associates and Joint ventures calculated by equity method.
j. Other material non-cash items. e.g Impairment Loss, revaluation

**Important Point:**

1. Segment result disclose should be **before tax** and before discontinued operations (Refer Ind AS - 105)
2. Interest revenue and expenditure should be **disclose on gross** basis i.e. should not be **netted off unless** CODM in its review considers interest on net basis in such a case interest may be disclose on net basis

**C. Segment assets**

Apart from the **segment assets** following should be disclosed:

1. Investments in associates is Joint ventures accounted for by equity method.
2. Additions to non-current Asset **excluding**
   a. Financial assets IND AS - 109
   b. Deferred Tax Assets IND AS - 12
   c. Assets from Defined benefit Plan - IND AS - 19
   d. Rights arising from insurance contract IND AS – 104

2. **Measurements (Accounting Policies):** All the items that are reported as segment information should be **measured** according to the measurement **principles** adopted for purpose of **reporting to CODM**. i.e. The Accounting policies used for Internal reporting to CODM should be used, while preparing segment reports. These
accounting policies may **differ** in comparison to accounting policies adopted for the preparation of **annual** financial statement for reporting purpose. This gap in measurement of segment assets and segment liabilities & results should be bridged by preparing separate **reconciliation** e.g. If inventory valuation is done on based on FIFO basis for the purpose of reporting to CODM and done on weighted average basis for disclosure on financial statement than in segment report Inventory will be valued on FIFO basis and the valuation difference between two methods will be disclosure through a reconciliation.

**3. Entity wide Information:** This Disclosure is applicable to **all entities** including those entities that has a **single** reportable **segment**. These disclosures are to be given **only if** they are **not** provided in **segmental report**.

A. Information about **product / services** offered i.e. revenue from external customer for each product and services this amount shall be based on financial information used to produce entities annual financial statements.

B. Information about **geographical areas**
   i. revenue from external customers
      a. In a country of Domicile (Domestic)  
      b. Foreign countries
   ii. Non - current asset Located
      a. In a country of Domicile  
      b. Foreign countries

C. Information about **major customer**
   i. An entity shall provide information about its **reliance** on its **major client**, for this purpose if the **revenue** from **single customer** is 10% or more of the **total entity’s** revenue, then the revenue from that customer shall be disclosed.
   ii. The **Identity** of the customer need **not be disclosed**.
   iii. Entity or customer belonging to common control shall be consider as single customer **i.e. group companies should considered as single customer**.
4. **Restatement of previously reported information.**

If entity *changes structure* of its internal organisation, in such a manner that causes the composition of its reportable segment to change then the earlier year segmental report should be re-stated accordingly. If it is not practical to do so, then that fact's should be disclosed along with the reason and segment information for current year should be reported on both old basis and new basis.

V. **Practical Questions**

**Identification of Reportable Segment**

**Q1.** ABC Ltd. manufactures and sells healthcare products, and food and grocery products. Three products namely A, B & C are manufactured. Product A is classified as healthcare product and product B & C are classified as food and grocery products. Products B & C are similar products. Discrete financial information is available for each manufacturing locations and for the selling activity of each product. There are two line managers responsible for manufacturing activities of products A, B & C. Manager X manages product A and Manager B manages products B & C. The operating results of health care products (product A) and food and grocery products (products B & C) are regularly reviewed by the CODM. Identify reportable segments of ABC Ltd.

**Q2.** X Ltd. is engaged in the manufacture and sale of two distinct type of products A & B. X Ltd. supplies the product in the domestic market in India as well as in Singapore. There are two regional managers responsible for manufacturing activities of product A & B worldwide and also two other managers responsible for different geographical areas. For internal reporting purposes, X Ltd. provides information product-wise and as per the geographical location of the company. CODM regularly reviews operating results of both sets of components. How should X Ltd. identify its operating segments?
Q3. P limited identifies the following as its segments and the respective contribution as a % of sales is given below. Identify reportable segments.

<table>
<thead>
<tr>
<th>Name of the Segment</th>
<th>% of Total Segmental sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruit Products Division</td>
<td>22%</td>
</tr>
<tr>
<td>Vegetable Products Division</td>
<td>15%</td>
</tr>
<tr>
<td>Canned Foods Division</td>
<td>6%</td>
</tr>
<tr>
<td>Milk and allied products division</td>
<td>20%</td>
</tr>
<tr>
<td>Confectioneries Division</td>
<td>15%</td>
</tr>
<tr>
<td>Soft drinks division</td>
<td>5%</td>
</tr>
<tr>
<td>Mineral Water Division</td>
<td>9%</td>
</tr>
<tr>
<td>Snacks Division</td>
<td>8%</td>
</tr>
</tbody>
</table>

Q4. Z limited identified the following geographical segments:

<table>
<thead>
<tr>
<th>Name of Segment</th>
<th>PY</th>
<th>CY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Division</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Northern Division</td>
<td>25%</td>
<td>9%</td>
</tr>
<tr>
<td>Western Division</td>
<td>15%</td>
<td>8%</td>
</tr>
<tr>
<td>Eastern Division</td>
<td>12%</td>
<td>36%</td>
</tr>
<tr>
<td>Central Division</td>
<td>13%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Identify reportable segments.

Q5. A limited identified the following business segments:

<table>
<thead>
<tr>
<th>Name of Segment</th>
<th>PY</th>
<th>CY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware Division</td>
<td>35%</td>
<td>28%</td>
</tr>
<tr>
<td>Software Division</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Web-Maintenance Division</td>
<td>8%</td>
<td>15%</td>
</tr>
</tbody>
</table>
Technological Services Division  20%  8%

Identify reportable segments for the current year. What additional data is to be provided regarding the new reportable segments in the current year?

Q6. PEC limited, a listed company and its divisions (each in an operating segment) are engaged solely in manufacturing operations. The following data pertain to operations conducted for the year ended on 31.03.2019.

<table>
<thead>
<tr>
<th>Operations</th>
<th>Total Revenue</th>
<th>Operating profit</th>
<th>Identifiable Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>10,000,000</td>
<td>1,750,000</td>
<td>20,000,000</td>
</tr>
<tr>
<td>B</td>
<td>8,000,000</td>
<td>1,400,000</td>
<td>17,500,000</td>
</tr>
<tr>
<td>C</td>
<td>6,000,000</td>
<td>1,200,000</td>
<td>12,500,000</td>
</tr>
<tr>
<td>D</td>
<td>3,000,000</td>
<td>550,000</td>
<td>7,500,000</td>
</tr>
<tr>
<td>E</td>
<td>4,250,000</td>
<td>675,000</td>
<td>7,000,000</td>
</tr>
<tr>
<td>F</td>
<td>1,500,000</td>
<td>225,000</td>
<td>3,000,000</td>
</tr>
</tbody>
</table>

In its segment information for year ended on 31.03.2019, how many reportable segments does PEC limited have?

Q7. Indian Railway Finance Corporation Limited has operating segments A, B, C, D, E, F. The following data pertains to financial year 2017-2018. (Amount in ₹ ‘000)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue</th>
<th>Inter-Segment</th>
<th>Total</th>
<th>Operating P&amp;L</th>
<th>Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>9,000</td>
<td>9000</td>
<td>18,000</td>
<td>2,000</td>
<td>7,000</td>
</tr>
<tr>
<td>B</td>
<td>12,000</td>
<td>0</td>
<td>12,000</td>
<td>1,000</td>
<td>5,000</td>
</tr>
<tr>
<td>C</td>
<td>11,000</td>
<td>2000</td>
<td>13,000</td>
<td>(4,000)</td>
<td>9,000</td>
</tr>
<tr>
<td>D</td>
<td>20,000</td>
<td>0</td>
<td>20,000</td>
<td>0</td>
<td>14,000</td>
</tr>
<tr>
<td>E</td>
<td>33,000</td>
<td>11000</td>
<td>44,000</td>
<td>(10,000)</td>
<td>23,000</td>
</tr>
<tr>
<td>F</td>
<td>38,000</td>
<td>0</td>
<td>38,000</td>
<td>6,000</td>
<td>26,000</td>
</tr>
</tbody>
</table>

In the segment information for year ended on 31.03.2018, how many reportable segments to Indian Railways Finance Corporation Ltd., have?
Q8. Following is the data regarding six segments of Z limited:  ₹ in Lakhs

<table>
<thead>
<tr>
<th>Particulars</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment Revenue</td>
<td>150</td>
<td>310</td>
<td>40</td>
<td>30</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Segment Result</td>
<td>25</td>
<td>(95)</td>
<td>5</td>
<td>5</td>
<td>(5)</td>
<td>15</td>
</tr>
<tr>
<td>Segment Assets</td>
<td>20</td>
<td>40</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>

Director is of the view that it is sufficient that segments A and B be reported. Advise.

Q9. X Ltd. has identified the following business components.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue (₹)</th>
<th>Profit (₹)</th>
<th>Assets (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>External</td>
<td>Internal</td>
<td></td>
</tr>
<tr>
<td>Pharma</td>
<td>97,00,000</td>
<td>Nil</td>
<td>20,00,000</td>
</tr>
<tr>
<td>FMCG</td>
<td>Nil</td>
<td>4,00,000</td>
<td>2,50,000</td>
</tr>
<tr>
<td>Ayurveda</td>
<td>3,00,000</td>
<td>Nil</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Others</td>
<td>8,00,000</td>
<td>41,00,000</td>
<td>5,50,000</td>
</tr>
<tr>
<td>Total for entity</td>
<td>1,08,00,000</td>
<td>45,00,000</td>
<td>30,00,000</td>
</tr>
</tbody>
</table>

Which of segments would be reportable as per the criteria prescribed in Ind AS108?

Disclosures

Q10. X limited had three business segments namely, ‘Paper division’, ‘Printing division’ and ‘publishing division’, X limited, had an interest income, which was apportioned to all the segments on a reasonable basis. Does this form part of segment revenue?

Q11. The business segment ‘Electrical Division’ of P limited, comprised of three products namely VCR, VCP and VCD. During the year, some spare parts were transferred from VCR Department to VCP department. Can this Intra-Enterprise balance be set off while arriving at results?
Q12. Assuming in above question, that there exists another business segment ‘Spare parts division’ which transfers spare parts to ‘Electrical Division’, which deals with sale & service of VCR, VCP & VCD. Can set off be made in arriving at the segment results?

Q13. Fixed Assets of a company have been revalued. Whether fixed assets should be taken at historical cost for computing segment result or at revalued amount and if fixed assets are taken at revalued amount, does revaluation reserve require disclosure somewhere?

Q14. M limited Group has three divisions A, B and C. Details of their turnover, results and net assets are given below:-

<table>
<thead>
<tr>
<th>Particulars</th>
<th>₹ in ‘000</th>
<th>₹ in ‘000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale to B</td>
<td>3050</td>
<td></td>
</tr>
<tr>
<td>Other Sales (Home)</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Export Sales</td>
<td>4090</td>
<td>7200</td>
</tr>
<tr>
<td>Division B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales to C</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Export Sales to Europe</td>
<td>200</td>
<td>230</td>
</tr>
<tr>
<td>Division C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export sales to America</td>
<td>180</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Information</th>
<th>₹ in 000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Particulars</td>
<td>H O  A  B C</td>
</tr>
<tr>
<td>Operating Profit/Loss before tax</td>
<td>160 20  (8)</td>
</tr>
<tr>
<td>Re-allocated costs from Head office</td>
<td>48 24 24</td>
</tr>
<tr>
<td>Interest Costs</td>
<td>4 5 1</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>50 200 40 120</td>
</tr>
<tr>
<td>Net current assets</td>
<td>48 120 40 90</td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>38 20 10 120</td>
</tr>
</tbody>
</table>

Prepare a Segmental Report for publication in M Ltd. Group.
X Ltd. is operating in coating industry. Its business segment comprise coating and others consisting of chemicals, polymers and related activities. Certain information for financial year 20X1-20X2 is given below:

<table>
<thead>
<tr>
<th>Segments</th>
<th>External sale</th>
<th>Tax</th>
<th>Operating Income</th>
<th>Result</th>
<th>Asset</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coating</td>
<td>2,00,000</td>
<td>5,000</td>
<td>40,000</td>
<td>10,000</td>
<td>50,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Others</td>
<td>70,000</td>
<td>3,000</td>
<td>15,000</td>
<td>4,000</td>
<td>30,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

Additional information:

1. Unallocated revenue net of expenses is ₹ 30,00,00,000
2. Interest and bank charges is ₹ 20,00,00,000
3. Income tax expenses is ₹ 20,00,00,000 (current tax ₹ 19,50,00,000 and deferred tax ₹ 50,00,000)
4. Investments ₹ 1,00,00,00,000 and unallocated assets ₹ 1,00,00,00,000.
5. Unallocated liabilities, Reserve & surplus and share capital are ₹ 2,00,00,00,000, ₹ 3,00,00,00,000 & ₹ 1,00,00,00,000 respectively.
6. Depreciation amounts for coating & others are ₹ 10,00,00,000 and ₹ 3,00,00,000 respectively.
7. Capital expenditure for coating & others are ₹ 50,00,00,000 & ₹ 20,00,00,000.
8. Revenue from outside India is ₹ 3,00,00,00,000 and segment asset outside India ₹ 1,00,00,00,000.

Based on the above information, how X Ltd. would disclose information about reportable segment revenue, profit or loss, assets and liabilities for financial year 20X1-20X2?