CHAPTER 30: IMPAIRMENT OF ASSET

Problem 30-13 (AICPA Adapted)

On January 1, 2017, Roundabout Company purchased a machine for P800,000 and established an annual depreciation charge of P100,000 over an eight-year life.

During 2020, after issuing the 2019 financial statements, the entity concluded that the machine suffered permanent impairment of the operational value.

The reasonable estimate of the amount expected to be recovered through use of the machine for the period January 1, 2020 through December 31, 2024 is P200,000.

What should be reported as carrying amount of the machine on December 31, 2020?

a. 0
b. 100,000
c. 160,000
d. 400,000

Solution:

Cost - January 1, 2017	800,000
Accumulated depreciation - December 31, 2019 (100,000 x 3 years)	300,000
Carrying amount - December 31, 2019	500,000
Recoverable amount	200,000
Impairment loss	300,000

Impairment loss	300,000	
Accumulated depreciation		300,000
To record impairment loss		

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Cost	800,000
Accumulated depreciation (300,000 + 300,000)	600,000
Recoverable amount	200,000
Depreciation for 2020 (200,000/5 years remaining)	40,000
Carrying amount - December 31, 2020	**160,000**

Problem 30-14 (AICPA Adapted)
Mortal Company acquired a machine for P3,200,000 on August 31, 2017.

The machine has a 5-year useful life, a P500,000 residual value, and was depreciated using the straight line method.

On May 31, 2020, a test for recoverability revealed that the expected net future undiscounted cash inflows related to the continued use and eventual disposal of the machine amount to P1,500,000.

The fair value less cost of disposal of the machine on May 31, 2020 is P1,350,000 with no residual value.

What is the depreciation of the machine for June 2020?

a. 51,000
b. 50,000
c. 45,000
d. 53,000

Solution:

Cost	3,200,000
Accumulated depreciation - May 31, 2020 [(3,200,000 - 500,000) x 33/60]	1,485,000
Carrying amount - May 31, 2020	1,715,000
Fair value less cost of disposal	1,350,000
Impairment loss	365,000

Depreciation for the month of June 2020 (1,350,000/27 months remaining) **50,000**

A 33-month period runs from August 31, 2017 to May 31, 2020. So, the machine's remaining life is 27 months, 60 months original life minus 33 months.

Problem 30-15 (AICPA Adapted)
On January 1, 2016, Landmark Company acquired equipment for P1,000,000 with an estimated 10-year useful life.

The entity estimated a P100,000 residual value and used the straight line method of depreciation. During 2020, after the 2029 financial statements had been issued, the entity determined that, due to obsolescence, this equipment had a remaining useful life of only four more years and the residual value would be P40,000.

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On December 31, 2020, what is the carrying amount of the asset?

a. 515,000
b. 490,000
c. 415,000
d. 390,000

Solution:

Cost - January 1, 2016	1,000,000
Accumulated depreciation - December 31, 2019 [(900,000/10) x 4 years]	360,000
Carrying amount - December 31, 2019	640,000
Depreciation for 2020 [(640,000 - 40,000)/4 years]	
(150,000)	
Carrying amount of the asset - December 31, 2020	**490,000**

Problem 30-16 (AICPA Adapted)
On January 1, 2020, Haze Company owned a machine having a carrying amount of P2,400,000.

The machine was purchased four years earlier for P4,000,000 and depreciated using straight line.

During December 2020, the entity determined that the machine suffered permanent impairment of the operational value and will not be economically useful in the production process after December 31, 2020.

The entity sold the machine for P650.000 on January 5, 2021.

What amount should be recognized as impairment loss for 2020?

a. 2,000,000
b. 1,750,000
c. 1,350,000
d. 0

Solution:

Carrying amount - January 1, 2020	2,400,000
Depreciation for 2020 (1,600,000/4 years)	400,000
Carrying amount - December 31, 2020	2,000,000
Recoverable amount equal to the sales price	650,000
Impairment loss for 2020	**1,350,000**

Problem 30-17 (IAA)
On January 1, 2020, Elite Company purchased equipment with a cost of P11,000,000, useful life of 10 years and no residual value. The entity used straight line depreciation.

At every year-end, the entity determined that impairment indicators are present. There is no change in the useful life or residual value.

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The following information is available for impairment testing at each year end:

	December 31, 2020	December 31, 2021
Fair value less cost of disposal	8,100,000	8,400,000
Value in use	8,550,000	8,200,000

1. What is the impairment loss for 2020?

a. 1,350,000
b. 1,800,000
c. 2,450,000
d. 0

Solution:

Cost - January 1, 2020	11,000,000
Accumulated depreciation - (11,00,000/10 years)	
(1,100,000)	
Carrying amount - December 31, 2020	9,900,000
Value in use - higher than fair value less cost of disposal	8,550,000
Impairment loss for 2020	**1,350,000**

2. What is the gain on reversal of impairment for 2021?

a. 1,200,000
b. 800,000
c. 400,000
d. 0

Solution:

Carrying amount - January 1, 2021	8,550,000
Depreciation for 2021 (8,550,000/9)	
(950,000)	
Carrying amount - December 31, 2021 with impairment	7,600,000
Cost - January 1, 2020	11,000,000
Accumulated depreciation – December 31, 2021 (11,000,000/10 x 2 years)	
(2,200,000)	
Maximum carrying amount - December 31, 2021 no impairment	8,800,000
Fair value less cost of disposal - December 31, 2021, higher than value in use	8,400,000
Carrying amount - December 31, 2021 with impairment	7,600,000
Gain on reversal of impairment for 2021	**800.000**

3. What is the depreciation for 2022?

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a. 1,050,000
b. 1,100,000
c. 1,025,000
d. 950,000

Solution:

Depreciation for 2022 (8,400,000/8) **1,050,000**

Problem 30-18 (AICPA Adapted)

Silver Company had as equipment with a carrying amount of P450,000 at year-end. The following information was available at year-end:

Expected undiscounted net-cash flows	420,000
Expected discounted net cash flows	400,000
Fair value, using similar asset	415,000
Fair value, assuming the asset is sold stand-alone	428,000

What is the impairment loss that should be reported in the income statement for the current year?

a. 50,000
b. 35,000
c. 30,000
d. 22,000

Solution:

Impairment loss (450,000 – 428,000) **22,000**

Problem 30-19 (AICPA Adapted)

On January 1, 2017, Diamond Company purchased equipment for P5,600,000. The equipment had an 8-year useful life and residual value of P800,000. The entity depreciated the equipment using the straight line method.

In August 2020, the entity questioned the recoverability of the carrying amount of the equipment.

On August 31, 2020, the discounted expected net future cash inflows related to the continued use and eventual disposal of the equipment total P3,500,000.

The fair value less cost of disposal of the equipment on such date is P3,000,000.

After any loss on impairment has been recognized, what is the carrying amount of the equipment?

a. 3,500,000
b. 3,400,000
c. 3,000,000
d. 2,600,000

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Solution:

Cost - January 1, 2017	5,600,000
Accumulated depreciation - August 31, 2020 (4,800,000 x 44/96)	2,200,000
Carrying amount - August 31, 2020	**3,400,000**

From January 1, 2017 to August 31, 2020 is a period of 44 months.

Value in use	3,500,000
Fair value less cost of disposal	3,000,000
Recoverable amount	3,500,000

Since the recoverable amount of 3,500,000 is more than the carrying amount of 3,400,000, there is **no impairment loss**. Therefore, the equipment should be reported at the carrying amount of 3,400,000.

Problem 30-20 (AICPA Adapted)

At the beginning of current year, Gold Company acquired another entity in a business combination.

As a result of the combination, the following amounts of goodwill were recorded for each of the three reporting units of the acquires:

Retailing	300,000
Service	200,000
Financing	400,000

Near the end of current year, a new major competitor entered the entity's market and the entity was concerned that this might cause a significant decline in the value of goodwill.

Accordingly, the entity computed the implied value of the goodwill for the three major reporting units at year-end as follows:

Retailing	250,000
Service	100,000
Financing	600,000

1. What is the impairment of goodwill attributable to Retailing unit?

a. 250,000
b. 300,000
c. 50,000
d. 0

2. What is the impairment of goodwill attributable to Service unit?

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a. 200,000
b. 100,000
c. 300,000
d. 0

3. What is the impairment of goodwill attributable to Financing unit?

a. 400,000
b. 600,000
c. 200,000
d. 0

Solution:

	Carrying Amount	Implied Value	Loss
Retailing	300,000	250,000	50,000
Service	200,000	100,000	100,000
Financing	400,000	600,000	-
Total impairment loss			**150,000**

Since the implied value of goodwill exceeds the carrying amount, no loss is reported for the Financing unit.

Problem 30-21 (IAA)
Divine Company is testing two reporting units for impairment of goodwill. Information about results of such tests are shown below.

	Telecommunication	Networking
Segment carrying amount including goodwill	2,500,000	3,000,000
Carrying amount of goodwill	500,000	500,000
Estimated fair value of total	2,900,000	2,800,000
Estimated fair value other than goodwill	2,100,000	2,500,000

What total amount should be reported as impairment loss on goodwill?

a. 200,000
b. 900,000
c. 500,000
d. 0

Solution:

Segment carrying amount - Telecommunication	2,500,000
Estimated total fair value of segment	2,900,000
No impairment loss	0

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Segment carrying amount - Networking	3,000,000
Estimated total fair value of segment	2,800,000
Impairment loss - applied to goodwill only	**200,000**

Goodwill	500,000
Impairment loss	
(200,000)	
Carrying amount of goodwill	300,000

Problem 30-22 (IFRS)
Zephyr Company provided the following calculation about an impairment loss recognition on December 31, 2020:

	Goodwill	**Other assets**
Carrying amount	3,000,000	9,000,000
Impairment loss	(3,000,000)	(2,000,000)
	-	7,000,000

There has been a favorable change in the estimate of the recoverable amount of the net assets since the impairment loss was recognized. The recoverable amount is now P8,000,000 on December 31, 2021.
The carrying amount of the net assets of would have been P7,200,000 on December 31, 2021 if there was no impairment loss recognized on December 31, 2021. Assets are depreciated at 20% of reducing balance.

What amount should be recognized as gain on reversal of impairment for 2021?

a. 1,000,000
b. 2,400,000
c. 1,600,000
d. 0

Solution:

Carrying amount - December 31, 2020	7,000,000
Depreciation for 2021(20%)	
(1,400,000)	
Carrying amount - December 31, 2021 with impairment	
5,600,000	

Carrying amount - December 31, 2021 assuming no impairment	
7,200,000	
Carrying amount - December 31, 2021 with impairment	
5,600,000	

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Gain on reversal of impairment
1**,600,000**

The recoverable amount of 8,000,000 is **ignored** because it exceeds the carrying amount of 7,200,000 on December 31, 2021 assuming no impairment. Therefore, the carrying amount of 7,200,000 is the basis of the impairment reversal and not the recoverable amount of 8,000,000.

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