Tax Hotline

November 27, 2001

ICAI ISSUES EXPOSURE DRAFT ON 'IMPAIRMENT OF ASSETS'

The Accounting Standards Board of the Institute of Chartered Accountants of India (**ICAI**) has issued an exposure draft of a proposed mandatory accounting standard on `impairment of assets'.

The proposed standard, which will come into effect in respect of an accounting period commencing on a date to be decided later, prescribes the procedures that enterprises need to follow to ensure that their assets are carried at no more than their recoverable amount. According to ICAI, an asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use and sale of the asset. In such cases, the asset is described as impaired and the proposed Accounting Standard requires the enterprise to recognise an impairment loss (the amount by which the carrying amount of an asset exceeds its recoverable amount).

The proposed standard also specifies when an enterprise should reverse an impairment loss and prescribes certain disclosures for impaired assets. The exposure draft proposes that the carrying amount of the asset should be reduced to its recoverable amount in cases where the recoverable amount of an asset is less than its carrying amount. It held that an impairment loss should be recognized as an expense in the statement of profit and loss immediately, unless the asset is carried at revalued amount in accordance with Accounting Standard (AS) 10 which deals with Accounting for Fixed Assets in which case any impairment loss of a revalued asset should be treated as a revaluation decrease under that Accounting Standard.

The proposed standard would be applied in accounting for the impairment of all assets, other than inventories; assets arising from construction contracts; investments that are included in the scope of Accounting Standard 13; deferred tax assets. This Standard does not apply to inventories, assets arising from construction contracts, deferred tax assets or investments since the existing accounting standards applicable to these assets already contain specific requirements for recognizing and measuring the impairment related to these assets.

Source: Business Line, November 27, 2001

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