



Ind AS **Worked Example**

Treatment of
Impairment Loss
and subsequent
Revaluation Surplus

Worked Example

Treatment of Impairment Loss and subsequent Revaluation Surplus

SCENARIO

Profit before depreciation	CU 100 per year	Depreciation	(SLM)
PPE at the beginning of year 1	CU 100	Financial	Tax
Income tax rate	40%	20%	25%

Recoverable amount	CU 60 at the end of year 1
	CU 50 at the end of year 3

When the recoverable amount of an asset is *less* than its carrying amount, the carrying amount of the asset shall be reduced to the recoverable amount. That reduction is an **impairment loss**, which shall be recognised immediately in profit and loss.

If an asset's carrying amount is increased as a result of revaluation, the increase shall be recognised in Other Comprehensive Income (net of tax) and accumulated in equity under the heading **Revaluation Surplus**. However, the increase shall be recognised in profit and loss to the extent that it reverses an impairment loss (ie, impairment reversal) of the same asset previously recognised in profit and loss.

Statement of Profit and Loss and Other Comprehensive Income (CU)

Year	1	2	3	4	5
Profit before depreciation	100	100	100	100	100
Depreciation	20	15	15	25	25
Impairment	20	40	– 15	(10) 5	– 25
Accounting Profit	60	85	95	75	75
Tax expense –					
Current tax	30	30	30	30	40
Deferred tax (income) / asset	(6)	4	2	–	–
Deferred tax expense / (liability)	– 24	– 34	6 38	– 30	(10) 30
Profit for the period	36	51	57	45	45
<i>Other comprehensive income</i>					
Revaluation surplus (net of tax)	–	–	6	–	–
Total comprehensive income	36	51	63	45	45

Note: In all the years, the tax expense is 40% of accounting profit [Para 81(c) (i) of Ind AS 12].

Statement of Changes in Equity

(CU)

Year	3	4	5
<i>Revaluation surplus</i>			
Opening balance	–	6	3
Created through other comprehensive income	6	–	–
Transferred to retained earnings	–	(3)	(3)
Closing balance	6	3	–

Workings

Current Tax

(CU)

Year	1 to 4	5
Profit before depreciation	100	100
Depreciation allowed	25	–
Taxable Profit	75	100
Current tax @ 40%	30	40

Deferred Tax Asset / Liability

(CU)

Year	1	2	3	4	5
Deferred tax	Asset	Liability	Asset	Liability	Asset
Opening balance	–	–	6	–	2
Created through – Profit or loss	6	–	–	–	6
Other comprehensive income	–	–	–	4	–
Reversed through P/L	–	–	(4)	–	(2)
Closing Balance	6	–	2	–	–

Carrying Amount of PPE

Restated proportionately

(CU)

Year	1	2	3	4	5
			Impairment reversal	Revaluation increase	
Gross block	100	100	100 → 100	→ 125	125
Accumulated depreciation and impairment	40	55	70 → 60	→ 75	100
Carrying Amount	60	45	30 → 40	→ 50	25

Eliminated against gross carrying amount

(CU)

Year	1	2	3	4	5
			Impairment reversal	Revaluation increase	
Gross block	100	100	100 → 100	→ 50	50
Accumulated depreciation and impairment	40	55	70 → 60	→ –	25
Carrying Amount	60	45	30 → 40	→ 50	25

Tax Base of PPE				(CU)
Year	1	2	3	4
Gross block	100	100	100	100
Depreciation allowed	25	50	75	100
Tax Base	75	50	25	–

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