

Telepath Co has a year end of 30 September and owns an item of plant which it uses to produce and package pharmaceuticals.

The plant cost \$750,000 on 1 October 20X0 and, at that date, had an estimated useful life of five years.

A review of the plant on 1 April 20X3 concluded that the plant would last for a further three and a half years and that its fair value was \$560,000.

Telepath Co adopts the policy of revaluing its non-current assets to their fair value but does not make an annual transfer from the revaluation surplus to retained earnings to represent the additional depreciation charged due to the revaluation.

On 30 September 20X3, Telepath Co was informed by a major customer that it would no longer be placing orders with

Telepath Co. As a result, Telepath revised its estimates that net cash inflows earned from the plant for the next three years would be:

Year ended 30 September:	\$
20X4	220,000
20X5	180,000
20X6	200,000

Telepath Co's cost of capital is 10% which results in the following discount factors:

Value of \$1 at 30 September:	
20X4	0·91
20X5	0·83
20X6	0·75

Telepath Co also owns Rilda Co, a 100% subsidiary, which is treated as a cash generating unit.

On 30 September 20X3, there was an impairment to Rilda's assets of \$3,500,000.

The carrying amount of the assets of Rilda Co immediately before the impairment were:

	\$
Goodwill	2,000,000
Factory building	4,000,000
Plant	3,500,000
Receivables and cash (at recoverable amount)	2,500,000
	<hr/>
	12,000,000

16 In accordance with IAS 36 Impairment of Assets, which of the following explains the impairment of an asset and how to calculate its recoverable amount?

- A An asset is impaired when the carrying amount exceeds its recoverable amount and the recoverable amount is the higher of its fair value less costs of disposal and its value in use
- B An asset is impaired when the recoverable amount exceeds its carrying amount and the recoverable amount is the lower of its fair value less costs of disposal and its value in use
- C An asset is impaired when the recoverable amount exceeds its carrying amount and the recoverable amount is the higher of its fair value less costs of disposal and its value in use
- D An asset is impaired when the carrying amount exceeds its recoverable amount and the recoverable amount is the lower of its fair value less costs of disposal and its value in use

- 17 Prior to considering any impairment, what is the carrying amount of Telepath Co's plant and the balance on the revaluation surplus at 30 September 20X3?**

	Plant carrying amount	Revaluation surplus
	\$000	\$000
A	480	nil
B	300	185
C	480	185
D	300	nil

- 18 What is the value in use of Telepath Co's plant as at 30 September 20X3?**

- A \$600,000
- B \$450,000
- C \$499,600
- D \$nil

- 19 Which of the following are TRUE in accordance with IAS 36 Impairment of Assets?**

1. A cash generating unit is the smallest identifiable group of assets for which individual cash flows can be identified and measured
2. When considering the impairment of a cash generating unit, the calculation of the carrying amount and the recoverable amount does not need to be based on exactly the same group of net assets
3. When it is not possible to calculate the recoverable amount of a single asset, then that of its cash generating unit should be measured instead

- A (1) only
- B (2) and (3)
- C (3) only
- D (1) and (3)

20 What is the carrying amount of Rilda Co's plant at 30 September 20X3 after the impairment loss has been correctly allocated to its assets?

- A \$2,479,000
- B \$2,800,000
- C \$2,211,000
- D \$3,500,000