BRAND IMPAIRMENT TESTING DISCLOSURES AND COMPLIANCE

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Abstract

The shifting from IGAAP to Ind AS has resulted in a change in accounting for intangible assets, earlier accounting standard on intangible assets (IGAAP AS-26) prescribe amortization of intangible assets. In contrast, new accounting standards (particularly, Ind AS-38) prescribes annual amortization only for intangible assets with a definite life and annual impairment testing for intangible assets with an indefinite life. Thereby this transition has resulted in a change in the accounting treatment of 'Brand.' The purpose of the current study is to provide evidence of the extent of compliance concerning the disclosure requirements of brand impairment testing as per Ind-AS 36.

Keywords:*brand, brand impairment, brand impairmenttesting, testing, disclosure, compliance*

The International Accounting Standards Board developed international financial reporting standards (IFRS) to harmonize accounting standards across all the countries. India adopted IFRS with modifications, and the set of standards is known as IndAS. Accounting for intangible assets has undergone significant change under IndAS as compared to the earlier set of accounting standards, known as IGAAP.

IGAAP prescribesannual amortization of intangible assets, whereas IndAS prescribe annual amortization only for intangible assets with a definite life and annual impairment testing for intangible assets with an indefinite life. Brand an intangible asset in the balance sheet is subject to amortization if it has a definite life; otherwise, annual impairment testing is required.The purpose of the current study is to provide evidence of the extent of compliance concerning the disclosure requirements of brand impairment testing as per Ind-AS 36. The paper has the sections, viz. a) Estimates required for impairment testing, b) Disclosure requirement as per Ind-AS 36, c) Research methodology and d) Result and discussion

Estimates required for impairment testing: As per Ind-AS 36, an asset is impaired when its carrying amount exceeds its recoverable amount. Carrying amount is the amount at which an asset is recognized after deducting any accumulated depreciation (amortization) and accumulated impairment losses thereon. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. For impairment testing of a brand, the firm needs to calculate the recoverable amount, for which it has to calculate the fair value and its value in use. The current paper focuses only on the value in use and related estimates.

As defined by Ind-AS 36, the value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. For calculating value in use, the firm has to make the following estimation-i) Remaining useful life, ii) Cash flow projections, iii) Discount rate

Disclosure requirement as per Ind-AS 36: As mentioned in the above section firms need to estimate useful economic life, cash flow, and the discount rate to measure value in use, it is expected that a firm provides disclosure in its annual report about these estimates. In the absence of such disclosures, readers will be clueless about the impairment testing method adopted. In the event of no impairment charge on brand, such disclosures become critical, as it will help readers to understand the economic rationale behind it.

For transparency, Ind-AS 36, particularly para 134 to 137, has prescribed disclosure requirements concerning estimates used to measure recoverable amounts of goodwill or intangible assets with indefinite useful life. The current study focuses only on the value in use estimates hence only requirements laid down in para 134 (d) (i)–(v) have been considered, which are described as i) Assumptions based on which cash flow projection are made ii) Description of management's approach to determining the values assigned to each key assumption iii) Period for which cash flow projections are made, iv) Growth rate used in projecting cash flows v) The discount rate applied to cash flow projection

Research methodology

Sampling methodology - firms were included in the sample upon fulfillment of following sampling requirements – It should be a constituent firm of CMIE COSPI index forManufacturing sector, orServices sector. It should have reported brand & trademark as on March 31, 2018, under Ind-AS. It should not have charged impairment and amortization on brand & trademark for the year 2018-19Its value of net brand & trademark as on March 31, 2018, should be 50 million or more. Following firms satisfied all the conditions as mentioned above –A D F Foods Ltd.; Agro Tech Foods Ltd.; Dish T V India Ltd.; Future Retail Ltd.; Goodricke Group Ltd.; Havells India Ltd.; Hindustan Media Ventures Ltd.; J K Agri Genetics Ltd.; Marico Ltd.; Pidilite Industries Ltd.; Ruchi Soya Inds. Ltd.; Spencer's Retail Ltd.;

Result and Discussion

The disclosure level of the impairment test is abysmal, with an average score of 16.67 percentage. Out of twelve firms, nine did not provide any disclosure on the impairment test, and two firms had some disclosure, whereas only one firm provided all the required disclosure. Overall disclosure analysis reflects an inferior reporting environment by the Indian firms.The following table summarises the disclosure analysis findings

Table 1 - Disclosure Analysis

S.No.	Firms	Assumptions based on which cash flow projection are made	Description of management's approach to determining the values assigned to each key assumption	Period for which cash flow projections are made	Growth rate used in projecting cash flows	The discount rate applied to cash flow projection
1	A D F Foods Ltd.	0	0	0	0	0
2	Agro Tech Foods Ltd.	0	0	0	Yes	Yes
3	Dish T V India Ltd.	0	0	0	0	0
4	Future Retail Ltd.	0	0	0	0	0
5	Goodricke Group Ltd.	0	0	0	0	0
6	Havells India Ltd.	0	0	Yes	Yes	Yes
7	Hindustan Media Ventures Ltd.	0	0	0	0	0
8	J K Agri Genetics Ltd.	0	0	0	0	0
9	Marico Ltd.	0	0	0	0	0
10	Pidilite Industries Ltd.	Yes	Yes	Yes	Yes	Yes

11	Ruchi Soya Inds. Ltd.	0	0	0	0	0
12	Spencer'S Retail Ltd.	0	0	0	0	0

Item wise analysis

Assumptions based on which cash flow projection are made: Only one firm provided disclosure for the management's assumptions based on which cash flow projections were made. Eleven firms did not provide any disclosure on this item,

Description of management's approach to determining the values assigned to each key assumption: Only one firm provided disclosure for the management's approach to determining the values assigned to each key assumption

Period for which cash flow projections are made: Two firms provided disclosure for the period for which cash flow projections are made; the remaining ten firms did not disclose the cash flow projection period.

Growth rate used in projecting cash flows: Three firms disclosed the growth rate based on which cash flow projections are made; the remaining nine firms did not disclose the growth rate.

The discount rate applied to cash flow projection: Three firms disclosed the discount rate used for value in use calculation; the remaining nine firms did not disclose the discount rate.

References

Indian Accounting Standard (Ind AS) 36 Impairment of Assets

Annual reports of the sample firms for the year 2017-18 and 2018-19