

The need to be “financially bilingual” US GAAP vs IFRS

XII. IMPAIRMENT

PLANT AND EQUIPMENT (PPE)

This presentation contains information, in addition to the material prepared and provided by the professor, from:

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SUMMARY

IMPAIRMENT : PPE

- Recoverability Test (Steps)
- Recoverable Amount or Future Cash Flows
- Loss Determination
- Market Value Definition

IMPAIRMENT INDICATORS

1. A significant **decrease** in the market price of an asset.
2. A significant **adverse change** in the extent or manner in which an asset is being **used**.
3. Damage to its **physical** condition.
4. A significant adverse change in **legal factors** or in the business climate that could affect the value of an asset including an adverse action or assessment by a regulator.
5. An **accumulation** of **costs** significantly in excess of the amount originally expected for the acquisition or construction of an asset.
6. A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates **continuing losses** associated with the use of an asset.
7. A current expectation that, more likely than not, an will be sold or otherwise **disposed** of significantly before the end of its **previously estimated useful life**.

IMPAIRMENT

US GAAP FASB ASC 205, 360

When events or changes in circumstances indicate that the book value might not be recoverable.

The undiscounted sum of estimated future cash flows from an asset is less than the asset's book value.

Is the amount by which fair value is less than book value.

Prohibited.

IAS 36

Assets must be assessed for indicators of impairment at the end of each reporting period.

The “recoverable amount” is less than the asset's book value.

Is the amount by which the recoverable amount is less than book value

Required if the circumstances that caused the impairment are resolved.

WHEN TO TEST

RECOVERABILITY TEST

LOSS COMPUTATION

SUBSEQUENT REVERSAL LOSS

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RECOVERABILITY TEST

US GAAP FASB ASC 205, 360

Impaired if:

Carrying Amount > Undiscounted Future Cash Flows

IAS 36

Impaired if:

Carrying Amount > *Recoverable Amount

LOSS COMPUTATION

Carrying Amount vs Market Value

Carrying Amount vs Recoverable Amount

Select the Higher:

(*Net Selling Price)

of an asset's fair value less costs to sell

(*Value in Use)

the present value of the future cash

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IMPAIRMENT: PRACTICE EXERCISE

MAIN INFORMATION

Cost- Residual Value/Useful Life

$$\underline{\$120,000 - \$0 / 20 \text{ years}) = \$6,000}$$

Year 3

← IMPAIRMENT PROCESS →

Year 6

Cost	\$120,000
Accumulated Dep.	<u>(\$18,000)</u>
Carrying Amount	\$102,000

\$120,000
<u>(\$36,000)</u>
\$84,000

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LOSS COMPUTATION

Carrying Amount (year 3)		<u>\$102,000</u>
Selling Price	\$80,000	
Cost of disposal	<u>(\$30,000)</u>	
Net Selling Price	\$50,000	
Expected future cash flows (undiscounted)		\$124,000
PV of expected Future Cash Flows		<u>\$72,000</u>

IAS 36

(\$102,000 vs \$72,000)

Dr. Impairment Loss	30,000	
Dr. Accum. Dep	18,000	
Cr. Equipment		48,000

U. S. GAAP

N/A

ACCOUNT ADJUSTMENT

$\$120,000 - \$0/20 \text{ years} = \$6,000$

	Year 3 Before Impairment		Year 3: After Impairment
Cost	\$120,000	(48,000)	\$72,000
Accumulated Dep.	<u>(\$18,000)</u>	(18,000)	<u>(\$0)</u>
Carrying Amount	\$102,000		\$72,000
			Adjusted Book Value
	<p>IAS 36 (\$102,000 vs \$72,000)</p> <p><u>Adjustment</u></p>		
Dr. Impairment Loss	30,000		
Dr. Accum. Dep	18,000		
Cr. Equipment		48,000	

Year 6
Recoverable Amount ~~\$150,000~~

Year 3 Before Impairment

Year 3 After Impairment

Year 4 to 6

Year 6: After Recovery of Loss

Cost \$120,000 (48,000) \$72,000 72,000

Acc. Dep. (\$18,000) (18,000) (\$0) (\$12,705) (years 4, 5 and 6)

Carrying Amount **\$102,000**

\$72,000

*\$59,295

+\$24,705=

****\$84,000**

~~**\$150,000**~~

IAS 36
 (\$102,000 vs \$72,000)

Year 3
Loss
\$30,000

Year 6
Current
Book
Value

Maximum
Reversal
\$24,705

****If the Impairment had not occurred**

Original Cost \$120,000
Acc. /Dep. (36,000) Year 1 to Year 6
Carrying Value \$84,000
 (\$59,295 + \$24,705)

Dr. Impairment Loss 30,000
 Dr. Accum. Dep 18,000
 Cr. Equipment 48,000

Original Depreciation Expense $\$120,000 - 0 / 20 \text{ years} = \$6,000$

*New Depreciation Expense After **Year 3: $\$72,000 / 17 \text{ remaining years} = \$4,235$**
 $\times 3 \text{ years (4, 5 and 6)}$
\$12,705

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Info: Carrying Amount \$84,000 **Year 6** **vs** **Recoverable Amount \$150,000**

REVERSAL OF LOSS

Current Carrying Amount

VS

Carrying Amount if No Impairment

\$59,295
(\$72,000 - \$12,705)

\$24,705
Maximum
Increase

\$84,000

Dr. Equipment (net)

Cr. Reversal of Impairment Loss (**Current Income**)

24,705

24,705

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ASSESSMENT ACTIVITY

8. IMPAIRMENT TEST: LOSS AND RECOVERY

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IMPAIRMENT INTANGIBLE ASSETS

IMPAIRMENT: INTANGIBLE ASSETS - INDEFINITE LIFE

US GAAP FASB ASC 350, 805, 985

IAS 36

EXCLUDE GOODWILL

WHEN TO TEST

A company **can** choose first to provide only a qualitative assessment of the likelihood of impairment to determine if quantitative measurement is then necessary.

Requires indefinite-life intangible assets other than goodwill to be tested for impairment at least annually.

LOSS COMPUTATION

The impairment loss is measured as the difference between **book value and fair value**.

The impairment loss is the difference between book value and the **recoverable amount**.

SUBSEQUENT REVERSAL LOSS

Prohibited.

Required if the circumstances that caused the impairment are resolved.

ASSETS COMBINATION

If certain criteria are met, indefinite-life intangible assets **should be** combined for the required annual impairment test.

Indefinite-life intangible assets **may not** be combined with other indefinite-life intangible assets for the required annual impairment test.

IMPAIRMENT: INTANGIBLE ASSETS - FINITE LIFE

US GAAP FASB ASC 350, 805, 985

IAS 36

WHEN TO TEST

A company **can** choose first to provide only a qualitative assessment of the likelihood of impairment to determine if quantitative measurement is then necessary.

If carrying amount can't be recovered need to look at changes in events or **circumstances**.

LOSS COMPUTATION

SUBSEQUENT REVERSAL LOSS

ASSETS COMBINATION

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IMPAIRMENT

INTANGIBLE ASSETS (GOODWILL)

IMPAIRMENT: INTANGIBLE ASSETS - GOODWILL

US GAAP FASB ASC 350, 805, 985

IAS 36

WHEN TO TEST

A company can choose first to provide only a qualitative assessment of the likelihood of goodwill impairment to determine if quantitative measurement is then necessary.

Requires goodwill to be tested for impairment at least annually.

LEVEL OF TEST

Reporting unit (RU)—a segment or component of an operating segment for which discrete financial information is available.

Cash-generating unit (CGU)—the lowest level at which goodwill is monitored by management. A CGU can't be lower than a segment.

LOSS COMPUTATION

Fair value of the reporting unit vs book value.

Recoverable amount of the CGU vs book value

WRITE DOWN

Other assets must be tested first.
An impairment loss and asset write-down is recorded **prior** to testing goodwill.

Reduce goodwill **first**, then other assets.

REVERSAL LOSS

Prohibited.

Prohibited.

COSTS OF DEFENDING INTANGIBLE RIGHTS

US GAAP FASB ASC 350, 805, 985

Litigation costs to successfully defend an intangible right **are capitalized** and amortized over the remaining useful life of the related intangible.

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Litigation costs to successfully defend an intangible right **are expensed.**

Capitalized

When an expenditure increases future benefits
(rare situations).