

AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

PO Box 275, Civic Square, ACT 2608 Australia

Phone 1800 644102 Fax 1800 644502

Overseas: Phone +612 9264 5690 Fax +612 9264 5691

E-mail: mail@audit.nsw.gov.au

The Secretary-General
International Accounting Standards Committee
167 Fleet Street
London EC4A 2ES
UNITED KINGDOM

Dear Sir

PROPOSED INTERNATIONAL ACCOUNTING STANDARD EXPOSURE DRAFT E55 "IMPAIRMENT OF ASSETS"

The Australian Council of Auditors General (ACAG) submits the following views on this Exposure Draft. While it should be noted that each Auditor General is an independent office bearer, this response represents the consensus view of the Australian members of ACAG.

ACAG is generally supportive of the proposals contained in the Exposure Draft. There is commonality between the Exposure Draft and the requirements of the existing Australian Accounting Standard (AAS10) "Accounting for the Revaluation of Non-Current Assets". However, it is noted that the Exposure Draft introduces a number of different proposals in respect of the definition and calculation of the recoverable amount as well as more rigorous disclosure requirements. ACAG believes the proposals have merit and strengthen the current requirements and guidance that is provided in other Australian and International Standards.

However, in relation to paragraphs 41 and 70 of the Exposure Draft which provide the accounting treatment to be adopted where an impairment loss/reversal of an impairment loss is recognised, it is noted that a reference is included to the provisions of other accounting standards (eg IAS 16 - Property, Plant and Equipment) through the use of a footnote. ACAG believes that the Exposure Draft could be clarified by incorporating these requirements in the actual paragraphs of the Exposure Draft to reinforce that in the appropriate circumstances, the impairment loss/reversal is to be accounted for in accordance with the other accounting standards.

ACAG shares the IASC view that the recoverable amount of an asset (or cash-generating unit) should be measured as the higher of its net selling price and its value in use (as defined in the Exposure Draft). The proposal, which incorporates the calculation of the recoverable amount by means of discounting estimated future cash flows, may be considered controversial by some, however, it is regarded by ACAG that the application of discounting techniques is essential to ensure that the financial information included in financial statements remains relevant and reliable within the framework of Australian Statement of Accounting Concepts No.3 (SAC3) - Qualitative Characteristics of Financial Information. The discounting of cash flows is also necessary to distinguish between assets that generate cash flows that differ both in timing and degree of certainty as is particularly the case with assets within the public sector environment.

The application of "value in use" may, however, not be appropriate to assets such as land under main roads. A working party to address this particular matter has been established in Australia but it is not due to report until 1998. The Exposure Draft should specifically exclude such assets from the proposed Standard.

ACAG believes that it is essential that the Exposure Draft makes explicit reference that the recoverable amount test does not apply to -

- assets of not-for-profit entities where an asset's service potential is not primarily dependent on its ability to generate net cash inflows; or
- assets which, pursuant to legislation, ministerial directive or other government authority, provide goods or services at no charge or at less than full recovery.

ACAG also believes the following issues need to be considered prior to the issue of a final accounting standard on the topic:

- The disclosure of key assumptions used to determine an asset's (or cash-generating unit's) recoverable amount should be required as many of the estimates used by the entity in the calculation of the present value of future cash flows may be subjective and differ from recognised assumptions of the market place.
- The Exposure Draft does not provide commentary as regards the recognition of impairment losses on assets revalued immediately prior to their sale. If allowed, this treatment would enable an impairment loss to be set-off against the revaluation reserve instead of being accounted for as a loss through the operating statement and, consequently, would not be a true reflection of circumstances.

I hope our comments will be of assistance, however, should you require further information, please contact the undersigned (tel: + 61 8 9222 7502) or Mr Russell Walker on + 61 3 9651 6004.

Yours faithfully



D D R PEARSON
CONVENOR
August 20, 1997