



# PHILIPS

## Philips International B.V.

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Re: Exposure Draft E55

Ref: WvdL/IA/c/Exp-dra.b01  
Date: 17 June, 1997

Dear Sir,

In reply to your request for comments on the Exposure Draft E55 on Impairment of Assets we are pleased to give you enclosed hereto our answers on the questions raised by the IASC Board.

Yours faithfully,

PHILIPS INTERNATIONAL B.V.

W.I.M. van der Loos

Enclosure: 1



1. We support option a): the higher of the net selling price and the value in use of the asset.
2. We agree that present value techniques should be used to measure the recoverable amount of an asset.
3. Yes, we agree.
4. a) Yes, we agree.  
b) Yes, we agree.
5. Yes.
6. No, we are of the opinion that it would be too restrictive to limit the reversal of an impairment loss for goodwill and other intangible assets for which no active market exists, to a reversal of the same event which caused the impairment loss.

If for instance, in example 1 of Appendix 1, the law which restricts private companies to export is not reversed in itself but the Government of country A through a Government body itself starts, in year 6, to export the product manufactured by company T and as a consequence sales of company T are picking up, why should in this event the impairment loss on goodwill which was registered in year 4, not be reversed?

7. Yes.
8. a) Yes.  
b) Yes.
9. a) Yes.  
b) Yes.
10. a) Yes.  
b) Yes.  
c) Yes.
11. Yes.
12. We would appreciate if the guidance would be expanded and would also deal with events in which private companies receive low interest Government loans and/or income tax incentives to establish themselves in certain regions or make investments in certain activities which the Government wants to promote for certain reasons. For the purpose of making the proper cash flow calculations on the value in use of investments, should the Company not include the benefits of the interest and/or income tax subsidies as elements of cash flow of such cash flow generating units? It is

indeed the policy of such Governments that the economic disadvantages of such of such regions (e.g. the North East of Brazil) are compensated by positive benefits granted by the Government in the way of subsidized loans, and/or tax benefits.

13. We think that more guidance should be given on the consequences of an impairment for Corporate assets, such as a head office. Paragraph 61 refers to allocations of costs of Corporate assets to the cash generating unit for the purpose of the calculations of future cash flows. But is it realistic that, in the event of an asset impairment of 3 cash generating units on a total number of 1200 (the estimated number of cash generating units in our Company) part of the asset "Head Office" is to be considered as an impaired asset and, as a consequence, a capital loss should be charged to the total results? And should thereafter the asset impairment of the Head Office be reversed if the Company adds a few new cash generating units via new acquisitions?
14. We understand that the rule set by paragraph 62 is leading. In a Company such as ours most equipment is of a very specific character, reason why the net selling price of most of the equipment is less than the carrying amount. If such is the case we understand that the rule of paragraph 62 that the impairment should be allocated first to goodwill, should prevail. However, strictly spoken, the guidance of paragraph 64 can easily conflict with the rule of order prescribed by paragraph 62.
15. Yes.
16. Yes. However we disagree with the disclosure requirements of paragraph 82 c and 82 d which requirements we consider excessive.
17. We do not agree with the disclosure requirement of paragraph 83. If the information to be disclosed under paragraph 83 should be give in all cases ( $\pm$  1200 in the case of our Company) in which no impairment loss is recognized or reversed the flow of information would be very heavy and would fill numerous pages of our Annual Report without serving any useful purpose to the user.
18. This disclosure requirement is considered excessive, unpractical and too costly to provide.
19. Yes.
20. No.
21. No, with exception of the points mentioned above in our letter (see questions 12, 13 and 14).
22. Yes.
23. No.