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SHT.

This is a short private comment on E55 (Impairment of Assets), based on the the summary of E55 by Laurence Rivat in IASC Insight June 1997.

In the summary it is said that the recoverable amount of an asset is "the higher of its selling price and its value in use". The former value is suggested to be net selling price, the latter one respectively the present value of estimated cash flows expected to flow from the continuing use from an asset and from its disposal at the end of its useful life.

This raises two controversies:

1. According to the Framework, para. 23, Going Concern is one of the (only) two basic assumptions of IAS's. Then, is it not illogical to allow two different valuation principles for balance sheet items which may well belong to the same category of e.g. fixed assets? I very well understand impairment of assets like bonds and shares on the basis of their market value, or in some cases due to losses of an daughter company. Bonds and shares do not typically loose their earning power gradually (as a function of calendar time or their use). On the contrary to this, for e.g. procurement prices of machines are matched by depreciations against the respective revenues. It is illogical to use any selling price or market value for them if they are not to be sold in the near future.

2. For reversing impairment losses it is said, that "the increased carrying amount of the asset should not exceed the depreciated historical cost of the asset had no impairment loss been recognised for the asset in prior year". Consequently, the net

selling valuation appears to be a temporary remedy! Why is it allowed to show temporarily a higher value for a fixed asset item when it is anyhow in continuous use? For me it appears to be against the obligation of presenting a true and fair view.

What I would suggest, is, that impairment of any asset should be valued on the basis on revenue expectations. If the aim is to keep a depreciable asset and use it in production process, then the only logical way of its valuation is to base the valuation on the expected cash flows from using it. This means periodizing the historical cost in the form of depreciation over the time the use of the asset is contributing to revenues. Sometimes a material decrease in revenue expectations may force to make a non-recurrent (single) depreciation. In this case nothing hinders giving additional information of the net selling price in the notes.

If the aim is to dispose the asset, then the net selling price or disposal value is the logical value of the item in question.

yours truly


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