



THE SOUTH AFRICAN BREWERIES LIMITED

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The Secretary-General
International Accounting Standards Committee
167 Fleet Street
London
EC4A 2ES
United Kingdom

Dear Sir,

E 55 – IMPAIRMENT OF ASSETS

We have reviewed the proposed standard on Impairment of Assets and also completed the field test questionnaire, as requested, in a number of businesses within the South African Breweries Group. We would therefore like to submit the issues of concern to us which have arisen.

Determining recoverable amount

The recognition of impairment losses may result from a number of reasons. The circumstances existing are very different in each case. Management's intention with the asset has a significant impact on the recognition or non-recognition of an impairment loss and we have a serious concern with the approach proposed in the exposure draft. Using either net selling price, or fair value, assumes that management has the intention to either dispose of the asset or include it in some sort of restructuring activity.

We came to the conclusion that the recoverable amount should be included as an overall requirement, which could be described, as "value in use". Value in use, or whatever terminology is adopted, should be the **present value** of related expected future economic benefits, as well as **net selling price** or **fair value**, depending on the circumstances. We do not support determining the higher of any two bases to be used as the recoverable amount.

Circumstances, which include management's intention with regard to the asset, should determine which method is used and that should be the only basis for calculating the recoverable amount on which an impairment loss is recognised. We therefore believe that paragraph 5 and 13-40 should be amended to require the application of a basis which will suit the circumstances.

Reversal of impairment losses

Possible revaluations

A problem occurs when an asset is enhanced or modified, or the structure in which it is applied, changes. In other words, the asset on which the original impairment loss was recognised is no longer separately identifiable.

Paragraphs 29 and 30 state that the asset's related cash flows should be assessed in its modified state or, if not individually identified, as part of its cash-generating unit.

We believe paragraph 29 should be amended to clarify whether a reversal of a prior impairment loss could be recognised if the recoverable amount of the modified or enhanced asset is higher than the sum of the original carrying amount (before the recognition of an impairment loss) and any capitalised costs incurred in modifying or enhancing the asset.

Also, can this reversal, if this is the case, be in excess of the sum of the original carrying amount (before the recognition of an impairment loss), and any capitalised costs incurred in modifying or enhancing the asset?

We believe the document should clarify when this could result in a revaluation, when in excess of a reversal of an impairment loss, especially where a policy of revaluation does not exist.

Unidentified reversals

Furthermore, paragraph 30 should be reconsidered since the circumstances could arise where reversals of impairment losses are not identified, due to the fact that an asset is assessed within a cash generating unit as - opposed to the individual asset on which the impairment loss was originally recognised. We agree that each asset should be assessed individually but, in addition, its cash generating unit should also be considered. Only if **both** are impaired should the loss be recognised, unless the asset has become obsolete, and this fact can be clearly demonstrated.

Even within a business it could appear as if a whole cash generating unit is impaired. A loss should not be recognised when management has the view that, with little effort, it is possible to turn the unit around. This is especially the case where the business, as a whole, is a going concern and there is no real expectation that turning the unit around will not be possible.

Accordingly some guidance should be included on the permanent nature of an impairment loss. This will safeguard the enterprise from the unnecessary recognition of impairment losses.

It is also important that this be applied consistently once the impairment loss is recognised. The enterprise should be required to monitor the asset, and its cash generating unit. This is necessary to ensure that possible reversals of previously recognised impairment losses are in fact identified.

Allocation of impairment loss

Paragraph 62 provides a hierarchy for allocating an impairment loss within a cash generating unit. We support this hierarchy, but we believe the requirement included as a benchmark treatment should be specific allocation. In many cases it may be very possible to allocate the impairment loss to specific assets and, we believe, it would be wrong to recognise the effect against assets which in fact might not be impaired.

We also believe that the statement in paragraph 63, that no future economic benefits can be embodied in the unidentifiable assets (specifically intangibles) related to the cash generating unit, is wrong. Intangibles might be the only assets which still embody expected future economic benefits, and, with some capital injection, it may be possible to generate some or all of those benefits.

Cash generating units

We urge the inclusion of the assessment of the cash generating unit in addition to the individual asset before an impairment loss is recognised. Some cash generating units might be impaired e.g. a store in a retail business, but others might be exceeding required returns within the same business. Management will certainly not recognise an impairment loss in this case, especially if it is anticipated that a few minor changes made by management will turn the store around.

Other

Possible standard

We do not believe that the principles of E55 will result in any recognition of impairment losses that would not have been recognised in the past. Current accounting practice allows for all the requirements.

Existing accounting pronouncements, for example, IAS 16 (property, plant and equipment) have the same requirements. We do not see the benefits of the proposed standard other than giving guidance on measurements issues. Maybe it should be considered to do only that.

Materiality

The concept of materiality always applies when complying with accounting standards in financial information. We therefore do not believe that paragraph 12 is necessary. We do however believe that some guidance should be included on the qualitative nature of materiality, for example, the permanent nature of impairment losses.

I hope this would be of some assistance to you and would be happy to clarify any uncertainties.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tanya P.', with a large, stylized initial 'T'.

TANYA PRINS
MANAGER: TECHNICAL ACCOUNTING
(On behalf of the Group Technical Committee)