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12 September 1997

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

Dear Bryan

Please find enclosed comments by the Australian Accounting Standards Board and the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation on Exposure Draft E 55 "Impairment of Assets".

The Boards believe that adopting the policies in the proposed International Accounting Standard would significantly improve the quality of financial reporting by enterprises regarding the application of the recoverable amount test, particularly the requirement to discount cash flows to their present value at a current market-determined rate of discount.

However, the Boards have concerns with some of E55's proposals. Their most significant concern is with the defining of recoverable amount as the higher of net selling price and value in use. The Boards believe that an asset's recoverable amount should be its fair value. Their concerns are noted in the attached comments on the Invitation to Comment.

Yours sincerely

Ken Spencer
Chairman
Australian Accounting Standards Board

Ian Mackintosh
Chairman
Public Sector Accounting Standards Board

Our comments on the Exposure Draft are set out below. They are cross-referenced to the questions raised in the Invitation to Comment on pages 5 to 10 (for example, [Q1] relates to question 1 on page 5 of the Invitation to Comment).

Measurement of Recoverable Amount

[Q1] Fair value

We support measuring the recoverable amount of an asset or cash-generating unit held for future use at its fair value, as outlined in paragraph 1(b) of the Invitation to Comment. We believe that in practice, adopting fair value as the measure of recoverable amount would involve complementing the measure proposed in E55 with a depreciated replacement cost constraint. Therefore, the asset or cash-generating unit would not be carried at an amount exceeding its "value to the owner". Under this approach "recoverable amount", defined as the fair value of the asset or cash-generating unit, would be calculated as the lower of:

- (a) depreciated replacement cost (this would be determined at the estimated market price where the asset is traded in an active market or markets which provide strong evidence of the asset's market price; for example, where there are recent sales of comparable assets otherwise than in distress conditions); and
- (b) the higher of its net selling price and value in use.

For assets that generate an economic return to the enterprise, or form part of a cash-generating unit that generate an economic return, the recoverable amount should then be determined at depreciated replacement cost (using quoted market prices in active markets if they are available). Our reasons for preferring fair value to the higher of net selling price and value in use as the measure of recoverable amount are that:

- (a) We expect that for assets held for future use, value in use will often exceed net selling price and will therefore be the attribute used to measure recoverable amount under E55's proposals. We believe that where fair value and value in use differ, fair value will be a more objective, reliable and comparable measure of the present value of future net cash inflows from the asset because it reflects the assessment of market participants. We believe that the possibility that management may have better knowledge than market participants of the ability of an asset to generate net cash inflows is outweighed by the risk that management's estimates may be optimistic;
- (b) Using fair values should minimise the risk that internally generated goodwill will inadvertently be recognised. This concern is elaborated on in

the attached extract from the draft paper on the recoverable amount test that will soon be published by the “G4+1” working group of standard setters;

- (c) Adopting a fair value constraint on the carrying amount of an asset would be consistent with the application of that constraint on the initial carrying amounts of assets. Under International Accounting Standards, assets can initially be recognised at no more than the entity would normally be prepared to pay for them in an arm’s length transaction. For example, the cost of inventories and self-constructed assets should exclude the costs of abnormal stoppages and wastage;
- (d) Using depreciated replacement cost provides a practicable means of measuring the recoverable amount of an impaired asset within a cash-generating unit when the value in use of the cash-generating unit exceeds its carrying amount (We disagree with the proposals in paragraphs 55 and 56 of E55. In the example under paragraph 58 of E55, we disagree with the proposal that where a machine suffers physical damage, and the enterprise has no intention to replace the machine, no impairment loss would be recognised.);
- (e) It would be consistent in the use of components of the “value to the owner” concept. E55’s proposal uses the concept of “recoverable amount” that forms part of the “value to the owner” of an asset, but is incomplete because its combination with an historical cost model would allow assets to be carried at above their depreciated replacement cost where prices fall (for example, in new technology industries, or for real property) — a practice that was not envisaged by proponents of measuring assets at their “value to the owner”. While we note that E55 was not developed with an objective to adopt a “value to the owner” constraint, we believe that permitting assets to be carried at above the amount that would currently be paid to replace them in their existing condition would be a serious deficiency in the Standard; and
- (f) It should reduce the need for complex disclosures. Apparently because E55 permits management estimates of the net cash inflows that will be generated by an asset to be preferred to estimates of market participants, it includes “anti-abuse” disclosures in paragraphs 82(d), 83 and 85. We believe that these disclosures are likely to add significantly to the complexity of financial reports, be potentially costly to apply and of doubtful usefulness to users of the financial reports. In addition, we believe that disclosure is not a substitute for appropriate recognition and measurement standards regarding impairment. As is indicated in our comments on Question 18, we are particularly concerned about the proposed disclosures in paragraph 85.

We also believe that if either the “fair value” or “selling price” of an asset or cash-generating unit held for future use is used to determine its recoverable amount, its costs of disposal should not be deducted from that amount. We believe

that there is no reason to presume that disposal costs will be incurred in recovering the carrying amount of an asset or cash-generating unit held for future use.

Present Value Techniques

- [Q2] We agree that present value techniques should be used to measure the recoverable amount of an asset, either implicitly (through the use of market prices) or explicitly (in a value in use calculation).

Assets held for Disposal

- [Q3] Our comments on Question 1 indicated our support for measuring the recoverable amount of assets held for future use at fair value. We believe that the recoverable amount of assets held for disposal should be measured at fair value less costs of disposal. It is likely that costs of disposal will be incurred in recovering the carrying amount of assets held for disposal.

We believe that if the IASC Board does not agree with our proposal that the recoverable amount of assets held for disposal should be measured at fair value less costs of disposal:

- (a) a depreciated replacement cost constraint should apply to the carrying amounts of assets held for disposal (consistent with our comments on Question 1); and
- (b) regardless of whether (a) is adopted, the guidance in the last two sentences of paragraph 13 (that the value in use of an asset held for disposal is likely to be close to its net selling price) should be strengthened and elevated to black letter. That is, the recoverable amount of assets held for disposal should never exceed net selling price. We believe that the guidance in paragraph 13 can be read as permitting any enterprise to argue that because of "special circumstances", a materially higher value in use is justified.

Recognition of Impairment Losses

- [Q4] (a) We support the proposed requirement that an impairment loss be recognised where the recoverable amount of an asset or cash-generating unit is less than its carrying amount. Similarly, we support E55's rejection of a "permanent diminution" criterion for the recognition of an impairment.
- (b) We disagree with the proposal that an impairment loss should be recognised for an asset only if the cash-generating unit to which it belongs is impaired. We believe that if an asset suffers physical damage, an impairment loss for that asset should be recognised even if the recoverable amount of the cash-generating unit exceeds its aggregate carrying amount. The impairment loss for the asset should be measured by reference to fair value or, if the IASC Board disagrees with using fair value to measure recoverable amount, at an amount no greater than

depreciated replacement cost. In substance, the impairment loss resulting from physical damage would be a form of accelerated depreciation for the asset.

Reversals of Impairment Losses

- [Q5] We agree that reinstatements of impairment losses should be required, but disagree with the proposed requirement that there must be a change in the estimates that led to the recognition of the impairment loss for an impairment loss to be reinstated. We believe that where the value of an asset has risen above its impaired value, it is irrelevant which factors have caused the increase. E55's proposal would make the possibility of reversals dependent on whether the previous estimates of cash flows were poorly made.

We are also concerned that this proposal would require some assets to be measured at the lower of cost and previous recoverable amount (at odds with the benchmark treatment in IAS 16), while other assets would be measured at the lower of cost and current recoverable amount. This would detract from the comparability and understandability of the measures adopted, and add significant complexity to the recoverable amount test.

- [Q6] Reversals of impairment losses for goodwill

We believe that the Board should prohibit altogether the reversals of an impairment loss for goodwill, because it would seldom, if ever, be possible to ascertain that the "reversal" of an external event has led to a recovery of unidentifiable future economic benefits.

Reversals of impairment losses for other intangible assets for which no active market exists

We believe that other intangible assets for which no active market exists may, unlike for goodwill, have reliable evidence of a reversal of an impairment. For example, development costs for pharmaceutical products may have been written down in a previous period but further development work has generated a product which is highly likely to be commercially successful (supported by previous sales of licences to use other product knowledge). We believe that adopting similar policies for the reversal of an impairment of any intangible asset without an active market to the policies applying to goodwill would be inappropriate.

Scope

- [Q7] We agree with the scope of the Standard as set out in paragraph 1, which would exclude from the Standard's scope those assets for which the recoverable amount test is, or will be, addressed by separate Accounting Standards.

Identifying an Impaired Asset

- [Q8] We agree that the indicators of impairment identified in paragraphs 6 to 12 should be adopted to determine whether an asset is impaired. Adoption of the impairment indicators set out in paragraph 8 should ensure that the recoverable amount of an asset will be estimated if there is a significant risk that the asset is impaired, and should minimise the need to regularly perform detailed and costly estimates of future cash flows.

We note that question 8(a) (but not the proposals in the Exposure Draft) states that an asset's recoverable amount *cannot* be estimated if there is no indication that assets are impaired. We believe that estimating an asset's recoverable amount should be permitted whether or not impairment indicators are present. For example, some enterprises continually assess the recoverable amount of their assets from one reporting period to the next, and recognise any impairments accordingly. In addition, any prohibition of estimating recoverable amount is unlikely to be enforceable.

Net Selling Price

- [Q9] We agree with the definition of net selling price, and accordingly that it should not be necessary to determine net selling price by reference to an active market. Where an asset is not traded in an active market, a reliable estimate of its net selling price (based on the guidance set out in IAS 32 "Financial Instruments: Disclosure and Presentation") is a useful component of a measure of the future economic benefits recoverable from the asset.

We agree with the definition of "costs of disposal" and the related guidance in E55, for the purpose of determining net selling price.

Value In Use

- [Q10] We agree with the proposed requirements and guidance in the Exposure Draft for estimating and discounting future cash flows. We agree that the discount rate should be a current pre-tax market-determined rate that is commensurate with the risks involved with the asset (that is, it should be the asset-specific rate of return expected from the market). However, we believe that it is unnecessary to refer to the time value of money in paragraph 36, because no discount rate would omit this.

Cash-Generating Units

- [Q11] We agree with E55's proposals that the recoverable amount of each asset should be estimated individually, and that if it is not possible to estimate the recoverable amount of an asset individually, the recoverable amount test should be applied to the asset's cash-generating unit (paragraph 46). We also agree that a cash-generating unit should be defined as the smallest identifiable group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets.

We believe that applying the recoverable amount test to individual assets wherever possible is of fundamental importance, because financial reporting is concerned with measuring individual assets rather than businesses. We are concerned that paragraphs 55 and 56, and especially the example under paragraph 58, contradict the principle in paragraph 46 (see our comments on Question 4).

[Q12] We agree with the requirements and guidance for determining the items that are to be included in a cash-generating unit. However, as noted above, we disagree with assumption 2 in the example on page 33. The example indicates that where the enterprise intends to replace a machine and sell it, that the cash-generating unit is the machine itself, and that its recoverable amount may be assessed independently. We are of the view that this reliance on management intent contradicts the position in the Exposure Draft that the recoverable amount test should be applied similarly to assets held for continuing use and to assets held for disposal.

[Q13] We agree that goodwill and other corporate assets should be attributed to the carrying amount of a cash generating unit where it can be identified reliably. We agree with the principle of applying the "bottom up" and "top down" approaches to estimate the recoverable amount of goodwill and other corporate assets, but believe that the explanation is difficult to understand. We believe that it is essential to demonstrate that the mere existence of goodwill and other corporate assets does not justify applying the recoverable amount test only at an enterprise level. A brief numerical example should be included to assist readers to understand how to apply the abovementioned approaches and to demonstrate that assets are grouped at the lowest practicable level.

[Q14] We agree with the procedures for allocating an impairment loss of a cash-generating unit firstly to goodwill (after any impairments attributable to particular assets within the cash-generating unit have been recognised), but are of the view that tangible and intangible assets should receive equal priority in allocating the remainder of the impairment loss.

We disagree with the view that intangible assets are more risky than tangible assets within a cash-generating unit. In fact, some intangible assets such as franchise rights and import quotas may be more marketable than specialised plant and equipment, and therefore less risky in some respects. In addition, to write off assets solely because they are perceived to be the most risky is likely to result in financial statements that do not faithfully represent the risk profile of the entity's assets.

Disclosure

[Q15] We agree that the disclosure requirements in paragraphs 79 to 82 of the Exposure Draft provide sufficient relevant information about the impairment of assets on an individual or cash generating unit basis. We agree that additional disclosure of an accumulated impairment loss as distinguished from accumulated depreciation, and

the amount of impairment losses that could be reversed, need not be disclosed for each class of impaired assets.

- [Q16 & 17] We agree that the disclosure requirements in paragraphs 82 and 83 of the Exposure Draft provide sufficient reliable information about the impairment of assets and that disclosure of additional information would only add to the complexity of financial reports, for the benefit of a limited range of users.

We disagree with the disclosures in paragraphs 82(d)(iii) and 83(c) because:

- (a) if value in use is a relevant and reliable measure of the recoverable amount of a particular asset or cash-generating unit, there should be no need to disclose other measures which are regarded by the IASC Board as inappropriate; and
- (b) they would seem to be of little if any use unless the amount of the excess over net selling price is disclosed.

Paragraphs 82, 82(d)(iii) and 83(c) refer to “significant” impairment losses and a “significant” excess over net selling price. In the absence of a definition of “significant”, it seems appropriate to interpret it to mean “material”. Reference to “significant” items differs from the general convention not to refer to materiality in standards paragraphs because materiality is implicit in all standards. References to materiality or significance in these standards paragraphs, but not others, may imply that materiality does not apply to these other standards paragraphs.

- [Q18] We disagree with the requirements of paragraph 85 to disclose information regarding an impairment loss that would or would not have been recognised with the benefit of hindsight. We believe that these disclosures add complexity to the financial report that is not warranted and that the costs of these disclosures (including a reduction in the understandability of the disclosures made) would outweigh any benefits. We believe that disclosures regarding impairment losses recognised or reversed during the period, and the events and circumstances leading to such recognition or reversals, as required by paragraph 82, would provide a sufficient indication of whether an enterprise frequently has optimistic or pessimistic estimates of future cash flows.

We believe that the disclosure is underpinned by inconsistent treatment of economic events affecting the recoverability of assets. Actual cash flows might be less than expected because of an unforeseen economic downturn. Such a downturn would often result in a fall in discount rates, which might offset the effect of the lower cash flows. Paragraph 85 might require disclosure of an “omitted impairment loss” when the asset was not, and is not, impaired.

We understand that paragraph 85 would require that if a re-estimate of cash flows indicated a previous omission to recognise an impairment loss, and the asset’s recoverable amount currently exceeds its carrying amount, the enterprise may in some cases be required to recognise an impairment. This would be the case if the

impairment did not qualify for reversal under the conditions in paragraphs 70 and 77. Such a policy would have the effect of placing different enterprises on an even footing regarding impairments that should have been recognised in the past. However, we believe that this benefit is outweighed by the abovementioned costs. These concerns with paragraph 85 are illustrated in the attached example.

[Q19] We agree that an enterprise should not be required to give information about how cash generating units are determined.

[Q20] We believe that additional disclosures need not be specified.

Appendices

[Q21] The examples given in Appendix 1 are consistent with the proposals in E55, and do not need to be amended or deleted. However, additional guidance on the matters raised in question 13 could be provided in the Appendix (see Q13 above).

[Q22] We agree with the consequential changes made to IAS 16 "Property, Plant and Equipment", except that we disagree that an asset carried at a reliable estimate of fair value could be impaired (see proposed revision of IAS 16, paragraph 30). This view reflects in part our view that the costs of disposal should not be deducted from the selling price of an asset held for continuing use in order to measure its recoverable amount. We believe that the simplicity of deeming the fair value of an asset to at least equal recoverable amount outweighs the apparently limited risk that some assets may be revalued to amounts exceeding their recoverable amount.

Other Comments

Public sector guidance

Australian Standards are developed with the objective of adopting a common set of standards for reporting entities in the public and private sectors. The Public Sector Committee of the International Federation of Accountants (IFAC) has issued a Guideline recommending that government business enterprises adopt International Accounting Standards in their financial reports. It would be helpful to the AASB and PSASB, and the Public Sector Committee of IFAC, if further guidance relevant to public sector entities were to be included in the International Accounting Standard. The particular issues on which guidance would be useful are outlined below.

"Community service obligations"

Government business enterprises sometimes have "community service obligations" imposed on them. These are obligations imposed on them by governments to provide goods and services to particular sections of the community at less than full cost recovery (for example, an obligation to supply electricity to remote communities at less than full cost recovery). In the absence of guidance on this issue, some have wrongly interpreted the recoverable amount test to require a

write-down of assets supporting the enterprise's discharge of its community service obligations. We note that the example under paragraph 48 covers this issue, but believe that specific mention of the ED's implications for "community service obligations" should be included.

"Network assets"

A topical issue for numerous government business enterprises, and some recently privatised government business enterprises, is how to apply the recoverable amount test to "network assets" such as electricity and water supply systems, road networks and other major infrastructure systems. One concern that has been raised is that it is not practicable to estimate the value in use of these assets. We believe that these concerns could be allayed by the inclusion of an example, or footnote, demonstrating that "network assets" generally are cash-generating units for which value in use may need to be calculated at the "business unit" level.

"Significance"

We disagree with the specific references made to the significance of certain items in paragraphs 8, 11 and 68. We believe that it is preferable to refer to a material effect. For example, the significance of a decline in an asset's market value [paragraph 8(a)] can only be assessed in context of the materiality of the change in value to the financial statement amounts.

Moreover, we believe that the need to identify and recognise (or reverse) impairment losses only where they are material should be emphasised only in the "Objective" paragraph.

ATTACHMENT TO JOINT AASB & PSASB SUBMISSION ON E55

Comments on Question 1 (extract from G4+1 draft discussion paper)

INADVERTENT RECOGNITION OF INTERNALLY GENERATED GOODWILL

The draft G4+1 discussion paper included the following comments:

“Fair Value Preferred to the Higher of Net Selling Price and Value in Use

- 2.4.8 Working group members who support adopting fair value rather than value in use¹ as the impaired value of an asset held for future use argued that where the asset’s fair value and value in use differ, fair value is a more objective and reliable measure of an asset’s impaired value.
- 2.4.9 One working group member who supports adopting fair value as the impaired value of an asset argued that where:
- (a) an asset’s value in use exceeds its fair value, or
 - (b) the value in use of a group of assets exceeds the fair value of the group of assets (determined in accordance with the views outlined in section 4.2 of this paper),
- the excess will (except in the rare circumstances discussed in Appendix 2) represent the present value of the net cash inflows arising from the unidentifiable synergistic benefits generated by the business in which the asset, or group of assets, is deployed. These unidentifiable synergistic benefits may be generated by a range of factors such as a superior management team, customer loyalty, and unidentifiable intangible assets. These sources of synergistic benefits are unidentifiable because it cannot be determined reliably whether, and to what extent, each of them contributes to the generation of expected “above-market” net cash inflows.
- 2.4.10 The working group member referred to in paragraph 2.4.9 argued that including the net cash inflows generated by these synergistic benefits in the measurement of the impaired value of assets would conflict with the working group’s view that it is conceptually desirable to apply a recoverable amount test to the carrying amounts of individual assets, or to groups of assets grouped at the lowest practicable level of aggregation (consistent with the role of financial statements to measure assets and liabilities rather than value the business).²
- 2.4.11 This working group member also argued that including the net cash inflows generated by these synergistic benefits in the measurement of the impaired value of

¹ Where the impaired value of an asset is measured as the higher of net selling price and value in use, and value in use exceeds net selling price.

² See paragraphs 3.3.1 to 3.3.12.

assets would be tantamount to recognising internally generated goodwill as an asset. Internally generated goodwill (the future economic benefits that are embodied in unidentifiable assets and have not been acquired in a purchase transaction) is not permitted to be recognised as an asset³ because it does not possess a cost or other value that can be measured reliably. Therefore, the working group member argued that internally generated goodwill should not be included in the measurement of an asset's impaired value.

- 2.4.12 Some commentators have argued that if the fair value of a group of assets exceeds the sum of the market prices for the assets comprising the group, the difference will represent internally generated goodwill. The abovementioned working group member disagreed because the synergistic benefits embodied in the fair value for the group of assets are entirely attributable to the group of assets (and therefore are not "future economic benefits embodied in unidentifiable assets"). To ensure that internally generated goodwill is not recognised, it is necessary that there is reliable evidence that the estimate of fair value faithfully reflects the amount for which the group of assets could be exchanged between knowledgeable, willing parties in an arm's length transaction. Reliable evidence of the fair value of the group of assets includes quoted market prices in active markets, market prices observed for comparable assets, or the present value of expected net cash inflows estimated using assumptions that other market participants would use in their estimates of fair value.
- 2.4.13 Conversely, the working group member referred to in paragraph 2.4.9 argued that where the value in use of the group of assets exceeds its fair value, it will be clear that the "above-market" net cash inflows are not generated by the group of assets because the value of any synergistic benefits embodied in the group of assets will be priced into its fair value."

³ Australian Accounting Standard AAS 13 and Accounting Standard AASB 1013 "Accounting for Goodwill" (June 1996, paragraph 4.1) and United Kingdom Statement of Standard Accounting Practice SSAP 22 "Accounting for Goodwill" (July 1989, paragraph 35) explicitly prohibit the recognition of internally generated goodwill. SSAP 22 explicitly prohibits the revaluation of purchased goodwill, which would be tantamount to recognising internally generated goodwill [paragraph 41(a)]. In the United States of America and Canada, the prohibition of recognising internally generated goodwill as an asset is implicit within the generally accepted accounting principle that assets (including purchased goodwill) are not to be revalued.

ATTACHMENT TO JOINT AASB & PSASB SUBMISSION ON E55

Comments on Question 18

DISCLOSURE IN PARAGRAPH 85: SUBSEQUENT REVIEW OF ACTUAL CASH FLOWS

Example Illustrating the Concerns in the Submission

The following details are assumed. A cash-generating unit comprises the following newly-acquired assets (reporting date: 30 June 19X0 ["year 0"]) which were expected to generate revenues from a new product developed internally by the enterprise:

Equipment, at cost	\$ 360,000
Capitalised development costs	\$ 210,000

In Year 0 the carrying amount of the cash-generating unit – \$ 570,000 – was compared with its value in use, which was estimated as \$ 612,395 (based on the estimated net cash inflows in the attached table [in the column headed "Original Estimates"] and using a discount rate of 16 per cent). Accordingly the cash-generating unit was identified as not having suffered an impairment in Year 0.

Actual net cash inflows for Year 1 were \$ 80,000. The enterprise attributed the lower than expected net cash inflows to a down-turn in the economy. The enterprise re-estimated the net cash inflows expected from the asset using the Year 1 actual net cash inflows (shown in bold print) as the base (see the column headed "Revised Estimates" in the attached table). Applying paragraph 85 of E55, the enterprise recalculated the value in use in Year 0, based on the re-estimated cash flows and an unchanged discount rate of 16 per cent, as \$ 495,179. The significance of this amount is discussed further below.

At the end of Year 1, the carrying amount of the cash-generating unit was \$ 522,500 (after deducting depreciation and amortisation for the year of \$ 47,500). At that date, the present value of the remaining (re-estimated) cash flows discounted at a rate of 13 per cent was \$ 560,080. The lower discount rate reflected a decline in the risk-free rate, which resulted from a loosening of monetary policy by the central bank in response to the down-turn in the economy. Despite the lower net cash inflows, the cash-generating unit's value in use still exceeded its carrying amount. Accordingly, the cash-generating unit was identified as not having suffered an impairment in Year 1.

The effect of applying paragraph 85 of E55 is discussed after the table.

TABLE

Year	Original Estimates	Revised Estimates	Discount Factor (discount rate = 16 per cent)	Present Value of Original Estimates	Present Value of Revised Estimates
	\$	\$		\$	\$
1	100,000	80,000	0.862	86,200	68,960
2	110,000	88,000	0.743	81,730	65,384
3	115,000	93,000	0.641	73,715	59,613
4	120,000	97,000	0.552	66,240	53,544
5	125,000	102,000	0.476	59,500	48,552
6	130,000	106,000	0.410	53,300	43,460
7	135,000	110,000	0.354	47,790	38,940
8	140,000	114,000	0.305	42,700	34,770
9	140,000	114,000	0.263	36,820	29,982
10	130,000	106,000	0.227	29,510	24,062
11	110,000	88,000	0.195	21,450	17,160
12	80,000	64,000	0.168	13,440	10,752
TOTAL				612,395	495,179

Applying paragraph 85

It would appear that in applying paragraph 85, it would be logical to complement the actual cash flows used with similarly re-estimated cash flows for future reporting periods (although the requirements proposed in the exposure draft are unclear). If this interpretation is adopted, applying paragraph 85 to the circumstances assumed in the example above would result in a recalculated value in use in Year 0 of \$ 495,179. Based on that amount, the enterprise would identify that the cash-generating unit was actually impaired in Year 0 (although an impairment loss was not recognised in that year), and the impairment loss would have been allocated to the capitalised development costs. It would also be identified that the impairment loss would have reversed during Year 1 because the value in use of the cash-generating unit (using the new discount rate of 13 per cent) was \$ 560,080. However, because the reversal reflected a change in discount rate, the "specific external event that caused the recognition of an impairment loss" had not reversed (see paragraph 77 of E55), and the impairment of the development costs would not have qualified for reversal. Accordingly, it would appear that

paragraph 85 would require the aggregate carrying amount of the cash-generating unit to be written down in Year 1 to \$ 495,179 (and explanatory disclosure).

If the circumstances were the same except that the cash-generating unit was comprised entirely of equipment, the reversal of the impairment would have qualified for recognition. Accordingly, in those circumstances paragraph 85 would appear to require disclosure that an impairment loss should have been recognised in Year 0, but has not been recognised because it had reversed in Year 1.