

International Accounting
Standards Committee
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**Comments on Proposed International Accounting Standards (IAS) E55:
Impairment of Assets**

Dear Sirs,

I would like to comment as follows:

1. Taking into account the scope exclusions (1. (a) - (e), E55 is mainly to be applied in accounting for the impairment of the following assets:

- 1.1. Property, plant and equipment (IAS 16)

- 1.2. Intangible assets (E50)

- 1.3. Investments, business combinations, investments in subsidiaries, in associates, interests in joint ventures (IAS 25, 22, 27, 28, 31)

In the following I am concentrating on deficiencies contained in E 55 when applying it to 1.1. property, plant and equipment. Such deficiencies do not apply in the same intensity to items 1.2. and 1.3..

2. The issuance of the present E55 on the topic "Impairment of assets" is clearly showing that:

- 2.1. The term "asset" and its recognition criteria are too broadly defined in Framework 49 (a); see 4.1.

- 2.2. Prudence" should be an underlying assumption (as "accrual basis" and "going concern"; Framework 22 and 23) and not just a qualitative characteristic as a subpoint of reliability only (Framework 37); see 5.1. - 5.3..

.../2

3. Framework definitions of the term "asset" and its recognition

- 3.1. "An asset is a resource controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise" (Framework 49 (a)).
- 3.2. "An asset is recognised in the balance sheet when it is probable that the future economic benefits will flow to the enterprise and the asset has a cost or value that can be measured reliably." (Framework 89).

4. Revised definitions recommended by me

- 4.1. "An asset is an individual balance sheet item controlled by the enterprise from which, on later use, disposal or withdrawal, a recoverable amount is expected by the enterprise."

Comments:

- 4.1.1. "Individual balance sheet item" (instead of resource) is clarifying the purpose of the definition (for financial statement purposes and not cash flows for the valuation of a whole enterprise or segments thereof or for calculations made before investing).
- 4.1.2. "A recoverable amount" is clearer than the flow of "the future economic benefits".
- 4.2. "An asset is recognized as an individual balance sheet item when it is probable that on later use, disposal or withdrawal amounts will be recovered and the asset has a cost or value that can be measured or allocated reliably."

Comment:

- 4.2.1. When purchasing another enterprise there is an allocation problem. When buying singly, the only question is whether to expense the whole amount in the year of purchase or to capitalise and depreciate or amortise it over its useful life.
5. "Impairment of assets" can only be solved in the context of "prudence" as an underlying assumption together with "going concern" which already is recognised as such an underlying assumption.
- 5.1. In other words, instead of prescribing, based on its present value, to value the whole enterprise each year for balance sheet presentation and disclosure purposes only, such should be restricted to discontinued operations or segments or to cases of lacking going concern.

5.2. It is entirely unacceptable to prescribe enterprises - in addition to their cash flow projections before making significant investments (e. g. acquiring a whole production line) and in rare situations, such as discontinued operations or segments - to play around for balance sheet presentation and disclosure purposes *each year* with the following:


- compute the present value of estimated future cash flows expected to flow from the continuing use of an asset and from the disposal at the end of its useful life (5);
- extrapolate short-term cash flow projections of a maximum of 5 years on the declining growth of subsequent years (23 b and c);
- stipulate a pre-tax market-determined rate (36);
- Identify cash-generating units, e. g. segments (46 - 58);
- eliminate bought goodwill in a "bottom-up" and a "top-down" test;
- allocate impairment losses, basically, on a pro-rata basis between the individual assets contained in such cash-generating units.

5.3. Last not least without "prudence" as an underlying assumption who is sheltering enterprises from IAS's prescribing them to do their accounts on a present value basis only also in cases of present values exceeding carrying amounts? The danger of a fair value accounting is already imminent! Such a development could cripple accounting to tell-tale stories, misleading users of financial statements rather than informing them: Operating profits etc. should be presented in such a manner that they might be distributed to minority shareholders as well as being put into retained earnings; minority shareholders and creditors can only be sheltered effectively by "prudence" being accepted by IAS as an underlying assumption.

I might come back to the above issues upon being furnished by you with the complete materials I asked you by separate fax to send me.

I look forward to hearing from you and what shall be your response.

Kind regards,
yours sincerely



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