

The Secretary-General
International Accounting
Standards Committee
166 Fleet Street

London EC4A 2DY

United Kingdom

5 November 1997/bd

**Further comments on Exposure Draft 55 'Impairment of Assets' and
'International Review of Accounting Standards Specifying a Recoverable
Amount Test for Long-Lived Assets'**

Dear Mr. Carsberg,

further to my comments of 16 June 1997 I would like to point out the
following:

1. Missing clearer distinction between single and consolidated accounts

- a) Upon acquiring a whole enterprise in an asset deal, in his own single accounts, the acquirer allocates the purchase price paid among assets, liabilities and bought goodwill.
- b) In the case of a share deal, in his own single accounts, the acquirer recognises the purchase price paid as his historical cost of an investment in a subsidiary. In his group accounts only, he handles the share deal as an asset deal in allocating the purchase price paid among assets, liabilities and bought goodwill.
- c) In both cases there is a purchase price paid to be allocated among assets, liabilities and bought goodwill, but on different levels, i. e. either in single or group accounts.

Except for IAS 27, no IAS is properly discerning between single and group accounts. However, such a distinction is relevant when specifying a recoverable amount test for long-lived assets to be applied on the proper level.

2. Missing clearer distinction between actual and only notional cashflows

- a) In contrast to actually purchasing or selling a whole enterprise expected estimated future net cash-inflows, if any, are of a notional character only. However, the decision to buy a whole enterprise is based on such notional forecasts which in only rare cases will fully reflect the bought reality. Comparing the forecast before buying with later developments will be a valid basis for a recoverable amount test.

- b) Let us assume a single enterprise (without acquiring subsidiaries) has over time expanded into a big manufacturer of tools and parts with car producers as customers (business and geographical segments). It is constantly incurring maintenance and repair costs before regularly replacing individual machines for updating its machinery, plant and equipment to match producers' requirements. The remaining useful lives of the individual machines vary for depreciation purposes in line with individually planned replacement dates. Taken as a whole, unless a complete technological change is needed or a car producer ceases to be a customer, the useful life of machinery, plant and equipment does not expire.

There is no market for used specialised machinery: Selling would mean scrapping.

Internally generated goodwill (technical knowhow and good customer relationship with car producers) is judged high: How high has never been tested in lack of negotiations to sell the whole tools and parts manufacturing business.

- c) Let us now assume in order to get a case 1 out of 5 car producers buys a smaller competitor manufacturing such tools and parts and switches orders to his subsidiary. Our single enterprise will lose 20 % of its sales volume. To make up for that loss it plans a major refurbishment of its machinery in one specific segment and to concentrate on additional needs of the remaining 4 car producers. These have signaled they would intensify their orders accordingly. None of the 4 car producers makes an offer to buy our single enterprise which in turn is not willing to sell a business segment or its whole tool and parts manufacturing business.

In order to reach this decision to invest in one segment new machinery, plant and equipment and to desinvest (scrap) the present one and not to seek negotiations to sell the whole business or to liquidate it, our single enterprise will hopefully revise all its forecasts and compare expected net cash-inflows from projections for all of the above scenarios (including the best offer for the new machinery). However, in contrast to a group with prior acquisitions, the single enterprise has no comparison based on former transactions between third parties (as is the case with acquisitions of a whole enterprise).

If at later year-ends, actual net cash-inflows deviate significantly from the projected ones our single enterprise will have a case for a recoverable amount test. Such is not available for the original decision to invest in new and scrap the old machinery in one segment.

- d) In its single accounts (there are no group accounts) our single enterprise will recognise the new machinery bought and expense (fully depreciate) the carrying amounts of the old one.

In the case of our single enterprise, the newly structured segment forms, together with the 4 other segments, i. e. the whole single enterprise forms a cash-generating unit: The underlying reason is that only an internally generated goodwill exists and that such is inseparably connected with handling the production of tools and parts by means of the restructured machinery and equipment as well as labor (stuff skills) and other production factors. Stuff skills and other unrecognized production factors form part of the internally generated goodwill.

3. Conclusions

For single enterprises impairment losses will almost always only be expensed, if net cash-outflows pertain to the whole business.

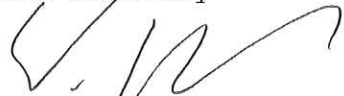
In the case of a group with a bought goodwill smaller cash-generating units will emerge, so that an impairment loss can be expensed in the case of net cash-outflows pertaining to such smaller cash-generating units.

The underlying reason is that single enterprises only possess a not otherwise recognized internally generated goodwill for the whole enterprise.

The above should be considered when finalising the Exposure Draft E 55.

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

Kind regards,
yours sincerely



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