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23rd October, 1997

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

Dear Sir,

EXPOSURE DRAFT 55 - IMPAIRMENT OF ASSETS

We set out below our responses to questions 1-23, contained on pages 5-10 of the ED.

Question No.	Response
01	We accept that the recoverable amount of an asset could be measured as the higher of its net selling price or value in use, whether the enterprise intends to sell the asset or continue to use it. <u>We take the view as this would eliminate the tedious computation of value in use in some cases</u> (where net selling price is higher than carrying value) and thus reduce the need for these computations. We find it difficult, however, to accept the argument presented in sub-paragraph b) of Paragraph 22 of the Basis for Conclusions for spreading a loss over future periods (rather than accounting for it immediately). <u>We believe it is conceptually far sounder to determine the value of an asset which will continue to be in use by reference to its value in use only</u> .
02	We believe the use of present value techniques to measure the recoverable amount to an asset is inevitable. We have some concerns though, about the judgements that would have to be made when applying these techniques - in other words that whilst the techniques prescribed give the impression of great sophistication in the values reached, <u>very much revolves around how good the underlying judgements made are</u> , particularly with regard to discount rates and expected cash flows.

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- 03 We believe the definition of recoverable amount in paragraph 5 is flawed when taken in the context of paragraph 26 of the Bases for Conclusions, as the definition speaks only of "disposal at the end of its useful life".
- 04 We agree with the proposal on recognition of impairment losses.
- 05 & 06 We agree with these proposals on the reversals of impairment losses.
- 07 We agree with the scope proposed.
- 08 We agree that the recoverable amount should be estimated only if there is an indication of impairment and that the indications of impairment listed in the exposure draft will call on an enterprise to assess the recoverable amount when there is a real prospect of impairment.
- 09 We agree that the selling price should be determined after deducting incremental costs directly attributable to disposal of the asset. We believe, however, that prices determined by reference to an active market, whilst being relatively easy to determine, can be volatile and be affected by extraneous factors, especially in underdeveloped markets; thus the amount obtainable from a hypothetical sale in an arms-length transaction between knowledgeable, willing parties is a conceptually more stable way of determining net selling price in all situations, as the prospective buyer's perception of what cash flows the asset will generate will be the factor determining value.
- 10 We agree with the proposed requirements and guidance laid out in the Exposure Draft on determining value in use.
- 11 & 12 We agree with the proposition laid out, but question whether it can be easily determined that an asset generates inflows which are independent of those from other assets.
- We believe this will result in the total entity or, where applicable, each distinct business unit within it, being regarded as the cash generating unit.



- 13 & 14 We agree with these propositions on measuring and allocating impairment losses.
- 15, 16 17 & 18 We agree with these disclosure requirements.
- 19 We agree with the disclosure requirement proposed, but are concerned by the complexity that the disclosure in terms of paragraph 85 will require.
- 20 We feel the disclosure requirements are already very comprehensive and there should not be any further disclosure burden.
- 21 We consider that the material in Appendix 1 is appropriate.
- 22 We agree with the changes proposed to IAS 16.
- 23 We have no further comment on the proposed standard other than to be perturbed by its complexity and by the misleading sense of great precision in measurement it might create .

We appreciate that the standard strives to give clearer direction on estimates that even now have to be made, but this does not fully counter the concerns expressed.

Yours faithfully,

Bochalar

PP

M.R. Mihular

Chairman -

Accounting Standards Committee