



**The Institute of
Chartered Accountants
of Pakistan**

Head Office

CA/DTS/AASC/97

July 31, 1997

The Secretary-General,
International Accounting Standards Committee,
167 Fleet Street,
London EC 4A 2ES
United Kingdom.

**EXPOSURE DRAFT E55 PROPOSED INTERNATIONAL ACCOUNTING
STANDARD - IMPAIRMENT OF ASSETS**

Dear Sir,

The Accounting and Auditing Standards Committee of the Institute of Chartered Accountants of Pakistan has reviewed the Exposure Draft E-55 Proposed International Accounting Standard - Impairment of Assets and is pleased to forward the enclosed comments.

Thanking you,

Yours truly,

Syed Sajid Ali
Director Technical Services

Encl.: As above

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INSTITUTE OF CHARTERED ACCOUNTANTS OF
PAKISTAN'S RESPONSE TO QUERIES RAISED IN THE
EXPOSURE DRAFT

ICAP Response

1 Which of the following approaches do you support:

- (a) the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use (paragraphs 5 and 12-40 of the Exposure Draft and paragraphs 7-30 of the Basis for Conclusions)
- (b) the recoverable amount of an asset should be measured as the fair value of the asset, that is, the amount obtainable for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value would be primarily based on the asset's market price if a market exists for that asset regardless of the value in use of the asset. If no market exists for the asset, fair value would be estimated in a similar way to value in use as defined in the Exposure Draft (paragraphs 13-19 of the Basis for Conclusions).
- (c) Other

The recoverable amount of an asset should be measured as the fair value of the asset, that is, the amount obtainable for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value would be primarily based on the asset's market price if a market exists for that asset regardless of the value in use of the asset. If no market exists for the asset the recoverable amount of an asset should be measured as the higher of its net selling price and its value in use.

None

2 One consequence of the approach adopted in this Exposure Draft (or the alternative definition of recoverable amount based on fair value is that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use) (paragraphs 7-9 and 11-12 of the Basis for Conclusions). Do you agree that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use)?

We agree that present value techniques should be used to measure the recoverable amount of an asset, implicitly (net selling price) or explicitly (value in use), if the fair value of the asset cannot be determined in the absence of a market for the asset.

Assets Held for Disposal

3 Do you agree that the definition of recoverable amount in paragraph 5 of the Exposure Draft is just as applicable to an asset held for disposal as to an asset held for continuing use (paragraph 26 of the Basis for Conclusions)?

Though we agree with the arguments in paragraph 26 but for the sake of clarity the definition of recoverable amount of an asset held for disposal should be an asset's net selling price.

Recognition of Impairment Losses

4 Do you agree that an impairment loss should be recognised for an asset:

- (a) whenever the recoverable amount of the asset is less than its carrying amount (paragraph 41 of the Exposure Draft and paragraphs 59-67 of the Basis for Conclusions); and
- (b) only if the cash-generating unit to which the asset belongs is impaired (paragraphs 55-58 of the Exposure Draft and paragraphs 74-75 of the Basis for Conclusions)?

Yes

Yes

If you disagree with these proposals, please indicate criteria you would prefer for the recognition of an impairment loss in the financial statements.

Reversals of Impairment Losses

5 Do you agree that an impairment loss recognised in prior years for an asset carried on an historical cost basis should be reverted up to the depreciated historical cost of the asset if, and only if, there has been a change in the estimates used to determine the impaired asset's recoverable amount since the last impairment loss was recognised (paragraphs 70-76 of the Exposure Draft and paragraphs 83-87 of the Basis for Conclusions)?

Yes

6 Do you agree that an impairment loss recognised for goodwill and other intangible assets for which no active market exists should be reversed in a subsequent period if, and only if, the external event that caused the recognition of the impairment loss has reversed (paragraphs 77-78 of the Exposure Draft)?

Yes

The Board also welcomes answers to the following questions, with reasons for those answers:

Scope

7 Do you agree that the Standard should apply to all assets except those listed in paragraph 1 of the Exposure Draft (paragraphs 1-4 of the Exposure Draft and paragraphs 106-110 of the Basis for Conclusions)?

Yes

Identifying a Potentially Impaired Asset

8 Do you agree that :

(a) the recoverable amount of an asset should be estimated if, and only if, there is an indication that the asset is impaired; and

Yes

(b) the list of indicators of impairment included in paragraph 8 of the Exposure Draft will require an enterprise to estimate the recoverable amount whenever there is a significant risk that the asset is impaired?

Yes

(paragraphs 6-12 of the Exposure Draft)

Net Selling Price

9 Do you agree that net selling price should be determined:

(a) based on "the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties" and that it is not necessary to determine net selling price by reference to an active market (paragraphs 5 and 17-18 of the Exposure Draft and paragraphs 31-38 of the Basis for Conclusions); and

Yes

- (b) after deducting from the amount obtainable from the sale of an asset the incremental costs that are directly attributable to the disposal of the asset (excluding finance costs and income tax expense (paragraphs 5 and 19-21 of the Exposure Draft and paragraph 35 of the Basis for Conclusions)? Yes

Value in Use

- 10 Do you agree with the proposed requirements and guidance in the Exposure Draft for:
- (a) the basis for estimates of future cash flows (paragraphs 23-27 of the Exposure Draft and paragraphs 24 and 40-42 of the Basis for Conclusions); Yes
- (b) the composition of estimates of future cash flows (paragraphs 28-35 of the Exposure Draft and paragraphs 43-46 and 50-58 of the Basis for Conclusions; and Yes
- (c) selecting the discount rate (paragraphs 36-40 of the Exposure Draft and paragraphs 47-49 of the Basis for Conclusions)? Yes

Cash-Generating Units

- 11 Do you agree that, if an asset does not generate cash inflows that are largely independent of those from other assets, an enterprise should determine the recoverable amount of the asset's cash-generating unit (paragraphs 46-47 of the Exposure Draft)? Yes
- 12 Do you agree with the requirements and guidance for determining the items included in a cash-generating unit (paragraphs 5 and 48-53 of the Exposure Draft)? Yes
- 13 Do you agree with the requirement (and related guidance) to recognise and measure an impairment loss if there exists goodwill or other corporate assets (such as head office assets) that relate to a cash-generating unit (paragraphs 59-61 of the Exposure Draft and paragraphs 79-81 of the Basis for Conclusions)? Yes
- 14 Do you agree with the procedures for allocating an impairment loss of a cash-generating unit between the assets of that unit (paragraphs 62-65 of the Exposure Draft and paragraphs 77-78 of the Basis for Conclusions)? Yes

Disclosure

- 15 Do you agree with the disclosure requirements in paragraphs 79-81 of the Exposure Draft and that an enterprise should not be required to disclose more information, such as the amount of impairment losses that can be reversed in subsequent periods (paragraphs 88-92 of the Basis for Conclusions)? Yes

- 16 Do you agree with the disclosure requirements in paragraph 82 of the Exposure Draft and that an enterprise should not be required to disclose for each individual asset (or cash-generating unit) for which significant impairment losses have been recognised or reversed during the period:
- (a) the value in use of the asset (cash-generating unit) if the recoverable amount is based on the net selling price of the asset (cash-generating unit); Yes
 - (b) the net selling price of the asset (cash-generating unit) if the recoverable amount is based on the value in use of the asset (cash-generating unit); Yes
 - (c) if the recoverable amount is based on the value in use of the asset (cash-generating unit);
 - i) the discount rate(s) used in the calculation; and Yes
 - ii) the assumed long-term average growth rate for the products, industries, and country or countries in which the enterprise operates or for the market in which the asset (cash-generating unit) is used; and Yes
 - (d) other key assumptions used to determine the recoverable amount of an asset. Yes
- (paragraphs 24, 93-95 and 98-99 of the Basis for Conclusions)?
- 17 Do you agree with the disclosure requirements in paragraphs 83-84 of the Exposure Draft and that an enterprise should not be required to disclose information similar to that proposed in question 16 above for each individual asset (cash-generating unit) for which: Yes
- (a) recoverable amount has been determined during the period;
 - (b) no impairment loss was recognised or reversed during the period; and
 - (c) a small change in key assumptions could lead to the recognition or reversal of a significant impairment loss?
- (paragraphs 24 and 96-97 of the Basis for Conclusions)?
- 18 Do you agree with the disclosure requirements in paragraph 85 of the Exposure Draft (paragraphs 24 and 100-101 of the Basis for Conclusions)? Yes
- 19 Do you agree that an enterprise should not be required to give information on how cash-generating units are determined (paragraphs 102-105 of the Basis for Conclusions)? If you believe that such information should be required. Please indicate which details should be required. Yes, we agree that an enterprise should not be required to give information on how cash-generating units are determined.
- 20 Should an enterprise be required to disclose any information other than that discussed in questions 15-19 to this Invitation to Comment? No

Appendices

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| 21 Should any material in Appendix 1 be amended or deleted? Should any further guidance be added to the appendix? (Note: the Board does not intend to publish appendix 3, Basis for Conclusions, with the final Standard.) | No |
| 22 Do you agree with the consequential changes to IAS 16, Property, Plant and Equipment (Appendix 2, Proposed Amendments to Other International Accounting Standards)? | Yes |

Other Comments

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| 23 Do you have any other comments on the proposed International Accounting Standard? | No |
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