



BDO Nelson Parkhill
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18 August 1997

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

Fax No. 44 171 353 0562

Dear Sir/Madam,

Re: Commentary on Exposure Draft E55 - Impairment Of Assets

We have reviewed Exposure Draft E55 - Impairment Of Assets and attach our comments as Appendix One.

We recognise the extensive consideration that has been given in preparing this exposure draft and look forward to the resulting standard.

We appreciate the opportunity to submit comments and trust they are of use to you in finalising the standard. The writer is available to answer any queries you may have.

Yours faithfully
BDO Nelson Parkhill

Stephen La Greca
National Director - Audit

APPENDIX ONE

Commentary of Exposure Draft E55 - Impairment Of Assets

Measurement of Recoverable Amount

To stay consistent with other proposals and current accounting standards we consider the best approach of measuring a recoverable amount to be (b) or the fair value of an asset. This approach eliminates the consideration of whether an asset is being held for sale or not and requires consideration of whether or not there is an available market for the asset or cash-generating unit.

However, we note that by using "recoverable amount" in the reporting of statements of position introduces a further erosion of the historical cost accounting framework. We express concern of the use of inconsistent basis of measurement in financial reporting.

We concur with the exposure draft's recommendation of present value techniques as the most appropriate way of determining current value of future cash flows.

However, as mentioned above we express some concern to the introduction of disparate valuation bases in what is essentially an historical cost model.

Assets held for disposal

As noted above, we agree that the definition of a recoverable amount is just as applicable to an asset held for disposal as to an asset held for continuing use. The exposure draft discusses the concept of fair value and how this enables an asset to be valued at its worth.

Recognition of Impairment Losses

We agree with the recognition of impairment losses as described in the exposure draft and would like to emphasis the need to consider the asset as a complete cash-generating unit before comparing recoverable and carrying amounts where this is applicable.

The concept of materiality may need to be mentioned in this section so that where a recoverable amount is materially less than a carrying amount, an impairment loss is recognised.

Reversal of Impairment Losses

We concur with both the questions asked regarding reversals of impairment losses. An asset should be able to be reversed in a later period if there has been a change in estimates and if the external event has reversed for goodwill and other intangible assets. We accept that a subsequent increase in the recoverable amount of goodwill is likely to be internally generated goodwill.

Scope

We agree the standard should apply to all assets except those listed in paragraph one of the exposure draft. However, we would also exclude current assets due to their short-term nature effectively resulting in such assets almost always carried at "recoverable amount".

Identifying a Potentially Impaired Asset

Paragraph seven requires an enterprise to perform a review at each balance sheet date to assess whether there is any indication that an asset may be impaired. The practical implications of carrying out the review are considerable. It may be better therefore to carry out a cyclical review except where large asset depletions have been noted.

We agree with the indicators defined in the exposure draft for identifying whether an asset may be impaired.

Definition Net Selling Price

We concur that net selling price should be determined as set out in the exposure draft.

We would like to mention the applicability of net selling price in calculating the fair value of an asset. However, the fair value market of an asset may not be determinable by reference to a willing buyer and seller. For example, a company may own a warehouse which has a distinguishing feature, such as its exceptional size or specialised and permanently attached equipment. The market for this warehouse therefore, may not be simply other commercial properties and in fact an available market may not exist because there is no willing buyer currently available. In such a circumstance "value in use" would be the more appropriate measure of "recoverable amount".

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Value In Use

We agree that cash flows used should be based on reasonable supportable assumptions, objectively verifiable where possible. We also agree the short-term projections should be based on five year periods which have been approved by management and longer term projections should be based on steady or declining growth rates (unless higher rates can be justified). If higher rates are used this should be disclosed and as well as the justification for their use.

We agree the appropriate discount rate is a market determined risk adjusted rate appropriate to the circumstances of the asset.

We agree cash inflows should include flows generated from the asset's use as well as outflows directly attributable to those inflows.

Cash-Generating Units

We support the concept of a cash generating unit and consider this an important component of the standard. We agree that a cash generating unit should consist of all assets and liabilities (if appropriate) that can be reasonably attributed to it. If practical this should include goodwill and overheads. We do foresee some practical difficulties in achieving this requirement.

Disclosure

We consider the information regarding impairment losses to be highly sensitive and therefore consider that no further disclosure is required other than those outlined in paragraph 79 to 85.



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A handwritten signature in black ink, appearing to read 'S. La Greca', written over the printed name.

Stephen La Greca
National Director - Audit

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