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BASIC ASPECTS OF MEASUREMENT OF IMPAIRMENT OF LONG-TERM ASSETS OF AN ENTITY

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Abstract

The carrying value of the enterprise assets is their historical value, which is adjusted by the amount of depreciation, that represents an estimate of value and only approximately reflects the value of the asset value in time.
At the same time, investors, who are the main consumers of the financial statements, are not interested in the value of the asset value of the assets, they are interested in the economic benefits, that will bring the asset in the future. IAS 36 "Impairment of Assets" requires that the economic benefits of the asset must not be reflected excessively in the financial statements.
The reliable assessment of the assets reflected in the financial statements is one of the foremost. Their real value over time can be changed for various reasons. Therefore, the enterprise needs to periodically re-evaluate the assets in its disposal and determine their recoverable value.
In the article, the issues of impairment of assets are discussed based on international financial standards and, the opinions on these issues are expressed.

Key words: *Assets impairment , Financial Statement, Rate of discount, Recoverable value,*

JEL Classification: *M41*

I. INTRODUCTION

According to IAS 36 "Impairment of Assets" the asset is reflected in the recoverable value if the carrying amount of the asset is higher, than the amount received on its use or sale. In this case we are dealing with impairment of the asset and the enterprise will be required to recognize the impairment loss, according to the aforementioned Standard. The standard also determines when the impairment loss is to be ompensated by the enterprise and, requires certain explanatory notes for impaired assets.

IFRS 36 defines impairment test for assets, which means comparing the paid value of the cash generating unit with its carrying amount. Conducting such a test is a very laborious procedure, so the standard does not require that it be carried out at the end of each reporting period. An impairment test should be carried out if there are impairment indicators. For each reporting date, the enterprise must identify possible impairment indicators. Even if one exists, the company is obliged to make an official assessment of the recoverable value.

Submitting information on impairment of assets in full and detail in financial statements is not easy. In the selection of discount rate, the standard does not provide detailed instructions regarding the use of different methods and approaches. In addition, the future cash flow assessment is based on assumptions and certain predictive calculations. Hence, the enterprise's ability to provide the users with the authentic and reliable information, is restricted.

II. IDENTIFICATION OF IMPAIRED ASSET

Asset is a company-controlled resource, from which it expects to receive further economic benefits and, the value of which can be credited measured fairly. Thus, the cost of the assets reflected in the financial statements should reflect the economic benefits that the company will receive from the asset in the future.

The conceptual basis for financial statements explains that the future economic benefit of the asset is the asset's ability to promote direct or indirect, cash and cash equivalents in the enterprise.

The future economic benefits of assets are entered into the enterprise through various means. For example, the asset can be used alone or with other assets, in the process of producing goods and services; Exchange of assets on other assets; Use of the asset forcovering the obligations; Distribution of assets to the owners of the enterprise.

It is logical that the company will choose the way to enter the next economic benefit from the assets that will bring the maximum benefit. The economic benefits that the company can earn by using its assets, is the sum of discounted value of future cash flows to be received from the assets.

The value of the assets is constantly changing as a result of macroeconomic factors, and thus, to present real information on the value of the assets in the financial statements, they are to be checked for impairment. The purpose of such an inspection is to determine whether the physical and economic potential of the assets has decreased, whether there is impairment and the assets should not be reflected in the financial statements more than the recoverable value thereof (Kvatashidze N., 2018).

According to IAS 36, If the carrying amount of the asset is higher, than the amount to be received by its use or sale, then there is an impairment of the asset and the enterprise is required to recognize the impairment loss.

At the end of each reporting period, the entity is required to assess whether there aby indication, that the asset may impaired. In case of existence, the entity is obliged to measure the cost of the asset. The recoverable value reflects the maximum benefit that can be obtained from the asset.

The impairment of an asset is also determined by the reduction of its erm or productivity or its useful service, which is based on the information provided in the internal report that the cost of maintaining the highest production level of the asset is higher than it was envisaged under the original budget [Vardiashvili M., 2018).

IAS 36 requires, that in case of determining the existence of possible signs of impairment of the asset, the entity must take into account external and internal sources of information. External sources of information are: Decrease of the value of the asset over the given period, which would have been expected to result from time pass or normal use; Significant changes that affect the entity, have occurred in the given period, or will occur in the near future, in the technological, market, economic or legal environment where the entity or the market for which the asset is intended, are functioning; market norms for return on market interest rates or returns that can affect the discount rate used in calculating the value of the asset's use in a given period and significantly reduce the recoverable value of the given asset.

The internal sources of information are: Signs of the existence of aging of an asset or its physical injury; Significant changes occurring in the given period or in the near future and will have a negative impact on the current or subsequent use of the asset; Evidence, that the economic indicators of the use of the asset are worse than expected, or will be deteriorated in the future.

Whether there is any indication on impairment, the entity is obliged to:
a) Inspect an annual amount of still unused and intangible assets for impairment, by comparing their carrying and recoverable values. Such inspection may be carried out at any time during the reporting year, provided that it occurs annually at the same time.

b) Check annually the impairment of goodwill produced in connection with amalgamation of enterprises

III. RECOVERABLE VALUE AND RECOGNITION OF IMPAIRMENT LOSS

For identifying the impairment of the asset, of the recoverable value thereof should be determined, which requires a measurement by two indicators: the value of the asset in use and the determination of the fair value reduced by exiting costs. Fair value is the market-based measurement that reflects the current market conditions [Maisuradze M., Vardiashvili M., 2016]

According to IAS 36 "Impairment of Assets"' :

1) It is not always necessary to define both values - the fair value reduced by the exiting costs of the asset and the cost of its use. If one of them is more, than the asset's carrying amount, the asset is not impaired and there is no need to evaluate the second degree.

2) The actual value reduced by the expenses of the asset exiting costs may be determined even when there is no quoted price of the active market of the identical asset. However, sometimes it is impossible to define the fair value of the expenses spent by expiry, in which case the value of the asset can be considered as the recoverable value of the asset.

If the value of the asset is significantly higher than the actual value decreased by the its exiting costs, the latter may be deemed to be the recoverable value of the asset.

Expenses, related to the expiry of the asset, except for the expenses, that are already recognized as liabilities, are excluded during the evaluation of the fair value evaluated by the expenses. These expenditures include: legal expenses, expenses related to execution of the legal documents, and deals and other similar fees and payments, expenses for dismantling of the asset and direct expenses required to prepare the asset for sale [Maisuradze M., 2017].

The expenses recognized as a liability, do not belong to exiting expenses. Under the dismantling cost, it is meant the expenses, that are not recognized as the liability. At the same time, discounts related to termination of labor activity and expenses related to reducing performance and reorganization of the enterprise after expiry of the asset, are not directly related to the expiry costs of the asset.

According to IAS 36, in order to avoid double accounting, the future cash flow measurements do not include cash withdrawals associated with the debt obligations (e.g. accounts payables and accruals). Otherwise, what has already been acknowledged as a liability and component of the asset, will not be taken into consideration when determining the outflow of cash flow in the future.

In calculating the value of the asset in use, the following factors should be considered:

• Measurement of the volume and time distribution of future cash flows expected from the asset;

• The expected outcome of possible changes in the volume and time distribution of future cash flows;
• Money-time value, based on the current market rate of interest;
• Summary of the existence of inherent uncertainty associated with the asset;
• Other factors, such as liquidity, which the market participants have taken into account when assessing future cash flows from the asset.

Assessing the use of an asset, the cash assessment must be based on reasonable assumptions, which are the best estimates of the expected economic situation within the period of the remaining useful service of the given asset.

When determining the value of the asset's use, predicting cash flows and discounting the discount rate is related to solving a number of difficult tasks. However, in most cases the commonly accepted or established methods of solving this problem do not exist in the theory and practice [Sreseli N., 2014].

In case if the value of the asset is less, than its carrying value, the carrying amount of the asset shall be reduced to its recoverable value. Reduced amount is the impairment loss.

An impairment loss shall be recognized as an expense in the statement of profit and loss, unless the asset is recovered in accordance with other international standards of accounting (for example, IAS 16 - "Property, Plant and Equipment" - with the defined revaluation model). Any impairment loss of the revised asset must be accounted for as revaluation reduction.

In profit or loss, the impairment loss associated with the asset will not be recovered. However, the impairment loss of the revaluated asset is recognized in the full income statement in the amount that the impairment loss does not exceed the amount of surplus related to this asset. Such impairment, however, impairment loss of the revised asset reduces the surplus value associated with this asset.

If the estimated amount of impairment loss exceeds the carrying amount of the respective asset, the enterprise must recognize the obligation only if it requires another international standard of accounting, such as the deferred tax liability according to IAS 12 - “Income Tax”.

The amount of depreciation (depreciation) of the asset after the recognition of an impairment loss should be adjusted to the carrying amount of the asset, reduced residual value, and the systematic distribution during the remaining useful servicelife of the asset.

IV. IDENTIFY THE CASH GENERATING UNIT AND RECOGNITION OF IMPAIRMENT LOSSES

The asset's cash-generating unit represents the smallest group of assets that involve the asset and generates the cash flow as a result of continuous use which most of the receipts do not depend on receiving cash from other assets or group of assets. The determination of the asset's cash generating unit requires a professional judgment.

If the individual can not determine the paid value for a single asset, the enterprise identifies the smallest group of assets, whose continuous use of money is largely independent of entering other monetary sources.

If the valuation of a certain asset's value is not possible, the enterprise must define the recoverable value of the cash-generating unit belonging to that asset.

It is impossible to determine the recoverable value of a separate asset, if the asset value of the asset is significantly different from the fair value reduced from the expenses of the expenses. In addition, the asset will not generate cash flow as a result of continuous use, which is not dependent on the cash flow generated from other assets. In this case, the value of the asset's use and, therefore, the paid value, may be determined only for the asset's cash generating unit.

In order to determine whether the cash withdrawal from the asset is independent from entering other assets, the enterprise provides for a variety of factors, such as how the enterprise management monitors the activity of the enterprise, the activity of the product nomenclature, the activity, the location, the region or the regional area , or other factors. Also, how the management of the enterprise decides to leave the enterprise assets enterprise or continue their further use and operations.

In pursuance withy IAS 36, if an active market of product of a group of products of the assets is present, the asset or group of assets should be considered as a cash generating unit, even if the derivative products are partially or fully utilized within the enterprise.

The cash value of the cash-generating unit is the largest amount between the actual value and the cost of using the cash flow unit expenses. The balance sheet value of the cash generating unit should be determined in accordance with the methods to which the value of the cash generating unit is determined.

The carrying amount of the cash-generating unit covers only the carrying amount of assets that is directly or indirectly available on the cash-generating unit. These assets also generate cash in the future, which has been assessed in determining the cost in use of a cash generating unit;

The carrying amount of the cash-generating unit does not include the carrying amount of recognized liabilities, except when it is impossible to determine the reimbursement of the cash generating unit without considering the obligation. The reason for this is, that when determining the value of fair value and use by the expenditure of the cash generating unit, the cash flow associated with the assets, that are not part of the cash generating unit and those obligations, which have been recognized by the financial statements [Maisuradze M., 2017].

In some cases, for the purpose of determining the paid value of the cash generating unit, it may be necessary to consider some recognized liabilities. This may happen if the cash generator entering the entity requires the buyer to take an obligation. In this case, the fair value, reduced by the expenditure of the cash-generating unit (or the expected receivables as a result of the expiry), is the estimated sale price of the cash-generating unit assets along with obligations, that have been reduced by the expenses related to its expiry. The balance sheet of the obligation shall be excluded as the value of the use of the cash-generating unit as well as the determination of its carrying amount in order to match the value of the cash-generating unit and the carrying value of the unit (Chiladze I., 2016).

When assets are grouped to assess their paid value, all asset in the cash-generating unit must be carried out by means of continuous use of which the cash flows belong to the cash generating unit.

In some cases, although the calculation of a separate asset is calculated in the formation of cash-generating cash flows by the cash-generating unit, it is not possible for them to be reasonable and consistent. For example, such a case involves goodwill or corporate assets (such as head office assets). In order to determine the paid value of the cash generating unit, it may be necessary to consider some recognized liabilities. This may happen if the cash generator entering the unit requires the buyer to take an obligation. In this case, the fair value reduced by the expenses of the cash generating unit is the estimated sale price of the cash-generating unit assets, together with the liabilities that have been reduced by the expenses related to its expenses.

An impairment loss is recognized only when the cash value of a cash generating unit (a group of minority entities, which is owned by a goodwill or corporate asset), is less than its balance sheet value. The impairment loss shall be distributed in the following sequence to reduce the carrying amount of assets that belong to the following entities:

a) First of all, the impairment loss shall be allocated to the cash-generating unit or the goodwill belonging to a group of individuals, if any;

b) Subsequently, the proportion of the carrying value of each asset or other group of entities, each asset included in the given entity.

These reductions of the carrying amount should be reflected in the impairment loss of each asset and its recognition shall be immediately imposed on the profit-loss statement.

An impairment loss, which in other cases be entitled to the asset, shall be proportionate to other assets of this entity.

In the event, if it is impossible to determine the recoverable value of the asset allocated to the cash-generating unit, IAS 36 provides, that the impairment loss should be equally distributed among the unit's assets, other than goodwill, because the funds are cash-generating unit of the assets in the joint mold.

At the end of each reporting period, the enterprise must determine whether there is any indication that the impairment loss of the asset recognized in the previous years may not be longer or decreased. In case of its existence, the enterprise must evaluate the reimbursable cost of the asset.

When the enterprise estimates that there is no indication, that the impairment loss of the assets recognized in the previous years may not exist or is decreased, it should take into account the following signs:

External sources of information:

a) In the given period the market value of this asset has significantly increased;

b) Important changes that are positive to the enterprise have occurred in the given period or will occur in the near future in the technological, market, economic or legal environment where the enterprise operates, or in the market for which this asset is designated;

c) Market interest rates or investments decreased in the given period

Reverse market norms that will likely affect the discount rate used during calculation of the value of the asset use and significantly increase the cost of the asset;

Internal sources of information:

d) In the given period or significant changes will be made in the near future, which positively affects the enterprise in terms of the current or subsequent use of the asset or the method. These amendments include expenditures that have been made to improve the productivity of the asset in the given time period or to increase its original standard productivity or to restructure the subdivision of the unit;

e) According to internal statements, the economic effectiveness of the asset has increased or will increase in the future more than expected.

For such asset, except for goodwill, the impairment losses recognized in previous years must only be compensated if the assessments used to determine the value of the asset's reimbursement after the recognition of an impairment loss. In this case, the carrying amount of the asset must be increased to its paid value. This increase is the compensation of impairment losses.

Compensation of an asset's impairment loss shall be immediately recognized in the statement of profit and loss if the asset is not registered at the revaluated value, in accordance with other international standards of accounting, for example, IAS 16, under the revaluation model provided for "fixed assets". Any amount of compensation for the impairment loss of the revaluated asset shall be calculated according to the international standard of other accounting norm, as the increase of revaluation.

In addition, the increased carrying value of the asset, other than goodwill, as a result of the compensation of an impairment loss, shall not exceed the carrying amount, depreciation and amortization, which would have taken no previous impairment losses.

The enterprise should reflect the following information in each of the assets in each of the financial statements:

1. The impairment loss recognized in profit or loss during the period and the articles of gross income reporting which include the amount of this impairment loss;

2. Amount of compensation for impairment loss recognized in profit or loss during the given period and articles of gross income reporting reflecting compensation of impairment loss;

3. Impairment losses related to recoverable assets, which are recognized during the given period in other gross income;

4. Compensation of impairment losses related to recoverable assets, which is acknowledged in other gross income.

V. CONCLUSION

• An assessment of an asset in a financial statement should not be more than its ability to bring economic benefits.

• An asset will be deemed impaired if its carrying value exceeds the recoverable value. In such case, the carrying value the asset must be reduced to its recoverable value and the amount of the reduction is to be recognized as a liability .

• The enterprise must determine at the end of each reporting period whether there is any indication that the impairment loss of the asset recognized in previous years may no longer be or decrease. In such case, the enterprise must compensate for the impairment loss and measure the recoverable value of the given asset.

• Compensation of the asset impairment loss should be recognized in the Profit-and-Loss Statement.

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