Impairment of assets

Proposed accounting rules on judging the impairment of assets will require companies and their advisers to ensure company reporting systems are ready long before the magic date of 1 January 2005, one of Australia's leading accounting experts, Jan McCahey, warns.

January 2005 is the target date for implementation of international accounting standards and one of the pronouncements that will require a lot of work is the impairment standard. McCahey, a partner at PricewaterhouseCoopers, says the proposals on accounting for asset impairment will require companies to collect information that may not be readily accessible at the current time and place it in a format that will help entities comply with impairment requirements.

"Companies haven't been collecting the sort of information they need to have to apply the impairment tests. They don't have cash flow information forecast over the periods and they don't have modeling which uses those cash flow forecasts to project values four or five years ahead," she says.

Jan McCahey says all companies will need to undertake a full review of the carrying amount of goodwill and other intangibles at the date of the first opening day of the inaugural comparative period, which for many companies will be 1 July 2004.

Those with a calendar reporting period will need to have these values ready by 1 January 2004 – just over nine months away.
"Companies will need to get that carrying amount reviewed at that date and they will need to do sufficient work before then to do a review. There's no point waiting until 30 June 2006 and then trying to do the test [that should have been done] two years ago."

One of the issues McCahey points to is the requirements to measure the value of assets – particular those intangibles with a finite life – means there is a potential for some companies to use a method of deriving fair value that results in a lower number on the balance sheet.

A lower balance sheet number related to a finite-lived intangible asset would result in a smaller hit to the bottom line.

"I could use a current replacement cost type measure to come to a fair value. I could also use a discounted cash flow approach to come to a value and some people might say that's a fair value," McCahey explains.

"You can imagine in this sort of scenario if an asset has to be amortised over quite a short period there could be an incentive to use a valuation approach that could end up with a lower value than otherwise. That will cause people difficulties in practice."

This article was supplied by Tom Ravlic. Tom is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.