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# Accounting for the inability to fully recover the carrying amounts of long lived assets; Issues paper (1980 July 15)

American Institute of Certified Public Accountants. Task Force on Impairment of Value

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# Accounting for the Inability to Fully Recover the Carrying Amounts of Long Lived Assets

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# INTRODUCTION

1. References to what is called the "usual accounting requirements" for the "impairment of value" of long lived assets can be found throughout the accounting literature. The term "impairment of value," though used in the literature, is not sufficiently descriptive. Assets are reported in balance sheets at their carrying amounts, and the condition described by the term "impairment of value" is the inability to fully recover the carrying amounts of assets. The term "inability to fully recover carrying amounts" is therefore used in this paper to refer to the condition described in the literature as "impairment of value."

2. Although the literature provides some specific guidance in accounting for the inability to fully recover the carrying amounts of <u>current</u> assets, the literature nowhere provides specific guidance on accounting for the inability to fully recover the carrying amounts of <u>long lived</u> assets. The FASB has acknowledged this in paragraph 209 of FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies," which states:

> The question of whether to write down the carrying amount of productive assets to an amount expected to be recoverable through future use of those assets is unsettled under present generally accepted accounting principles. This is a pervasive issue that the Board has not addressed.

3. Specific guidance is necessary for long lived assets because

- The literature has not significantly changed over the years (see paragraphs 5 to 15) and therefore has not resolved the issues raised in this paper.

- The concept of <u>value in use</u> in FASB Statement No. 33, "Financial Reporting and Changing Prices," requires that when the carrying amount of assets cannot be recovered, the assets should be written down to their recoverable amount in the supplementary presentation required by that Statement. That concept intensifies the problems associated with accounting for the inability to fully recover the carrying amounts of certain assets within the historical cost framework.
- As seen by current practice (see the appendix to this paper), the literature is being interpreted to permit or require write-downs of long lived assets only in rare situations.
- Capitalizing interest cost as part of the historical cost of acquiring certain assets under FASB Statement No. 34, "Capitalization of Interest Cost," will increase the possibility that those higher carrying amounts will not be fully recoverable.
- The increasing frequency of plant closings together with substantial losses on disposals of long lived assets resulting from plant closings may indicate that the carrying amounts of certain long lived assets actually became unrecoverable before the plants closed.

4. This paper raises issues that need to be addressed if specific guidance on accounting for the inability to fully recover the carrying amounts of long lived assets is to be provided.

## REFERENCES IN THE LITERATURE TO IMPAIRMENT OF VALUE

5. These references to impairment of value were found in the accounting and auditing literature:

| | Date Issued |
|---|---|
| APB Opinion 17, paragraph 2, "Intangible Assets" | 8/70 |
| APB Statement No. 4, chapter 7, S-5 and M-5, "Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises" | 10/70 |
| APB Opinion 18, paragraph 19 (h), "Equity Method for Investments in Common Stocks" | 3/71 |
| Codification of Auditing Standards Section AU 9332, "Evidential Matters for Long-Term Investments, an Interpretation of AU Section 332" | 1/75 |
| FASB Statement No. 5, paragraphs 8, 31, 74, and 75, "Accounting for Contingencies" | 3/75 |
| FASB Statement No. 12, paragraph 21, "Accounting for Certain Marketable Securities" | 12/75 |
| FASB Statement No. 13, paragraph 17 (d), "Accounting for Leases" | 11/76 |
| FASB Statement No. 19, paragraph 209, "Financial Accounting and Reporting by Oil and Gas Producing Companies" | 12/77 |
| FASB Proposed Statement on "Capitalization of Interest Cost," paragraph 15 | 12/78 |

FASB Discussion Memorandum on "Analysis of Issues Related to Reporting Earnings," paragraph 168 — 7/79

FASB Statement No. 34, paragraph 19, "Capitalization of Interest Cost" — 10/79

6. Paragraph 2 of APB Opinion 17, "Intangible Assets," states:

> Accounting for an intangible asset involves the same kinds of problems as accounting for other long-lived assets, namely, determining an initial carrying amount, accounting for that amount after acquisition under normal business conditions (amortization), and accounting for that amount if the value declines substantially and permanently. Solving the problems is complicated by the characteristics of an intangible asset: its lack of physical qualities makes evidence of its existence elusive, its value is often difficult to estimate, and its useful life may be indeterminable.

7. Sections S-5 and M5C of chapter 7 of APB Statement 4 state:

> S-5. Unfavorable external events other than transfers recorded. Certain unfavorable external events, other than transfers, that decrease market prices or utility of assets or increase liabilities are recorded.

> M-5C In unusual circumstances persuasive evidence may exist of impairment of the utility of productive facilities indicative of an inability to recover cost although the facilities have not become worthless. The amount at which those facilities are carried is sometimes reduced to recoverable cost and a loss recorded prior to disposition or expiration of the useful life of the facilities.

8. Paragraph 19(h) of APB Opinion 18, "The Equity Method for Investments in Common Stock," states:

> A loss in value of an investment which is other than a temporary decline should be recognized the same as a loss in value of other long-term assets. Evidence of a loss in value might include, but would not necessarily be limited to, absence of an ability to recover the carrying amount of the investment or inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment. A current fair value of an investment that is less than its carrying amount may indicate a loss in value of the investment. However, a decline in the quoted market price below the carrying amount or the existence of operating losses is not necessarily indicative of a loss in value that is other than temporary. All are factors to be evaluated.

9. In January 1975, the AICPA Auditing Standards Division issued an interpretation of section 332 of the Codification of Statements on Auditing Standards, "Evidential Matter for Long-Term Investments". Parts of the interpretation have accounting and financial reporting implications related to the issues raised in this paper:

> 01. Question - Section 332.03, states: "With respect to the carrying amount of [long-term] investments, a loss in value which is other than a temporary decline should be recognized in the financial statements of an investor." AC section 2031.09 [Volume 3, AICPA Professional Standards], with respect to working capital and current assets,

states: "in the case of marketable securities where market value is less than cost by a substantial amount and it is evident that the decline in market value is not due to a mere temporary condition, the amount to be included as a current asset should not exceed the market value." What evidence should the auditor obtain pertaining to the classification and the carrying amount of marketable securities when market value is below cost?

.02 Interpretation - Section 509.21 states: "In preparing financial statements, management is expected to use its estimates of the outcome of future events." Estimates of the outcome of future events include determining the proper carrying amount for securities when market value is below cost.

.03 Declines in market value may be temporary in nature or may reflect conditions that are more persistent. The distinction between temporary and persistent, however, has been largely undefined. Declines may result primarily from daily market fluctuations or from short-term variations in general economic or market conditions that are temporary in nature. Declines may also be attributable to general economic and money market conditions that persist for other than a temporary time period. Other market declines may be attributable to specific adverse conditions that affect a particular company's securities.

.08 Investments Classified as Noncurrent Assets. Investments in marketable securities that are properly classified as noncurrent assets should be carried at amounts that result in a fair presentation in conformity with generally accepted accounting principles. If there has been a decline in the market value of those investments, the auditor should obtain evidence concerning the nature of the decline. In making that determination, he should consider the ability to ultimately recover the carrying amount of the investments.

.09 When the market decline is attributable to specific adverse conditions for a particular security, stocks or bonds, a write down in carrying amount is necessary unless persuasive evidence exists to support the carrying amount.

.10 The value of investments in marketable securities classified as noncurrent assets may decline because of general market conditions that reflect prospects of the economy as a whole or prospects of a particular industry. Such declines may or may not be indicative of the ability to ultimately recover the carrying amount of investments. The auditor should consider all available evidence to evaluate the carrying amount of the securities. For investments in bonds and other investments with fixed maturity amounts, market declines may be considered temporary unless the evidence indicates that such investments will be disposed of before they mature or that they may not be realizable.

.11 If the auditor concludes the available information does not support either a judgment as to eventual recovery or a contrary judgment that recovery will not occur, the continued existence of a decline in market value is indicative of an uncertainty, as described in section 509.22. "In certain instances, the outcome of matters that may affect the

> financial statements or the disclosures required therein is not susceptible of reasonable estimation; such matters are to be regarded as uncertainties.... When such uncertainties exist, it cannot be determined whether the financial statements should be adjusted, or in what amount." The auditor should appropriately qualify his opinion because of the uncertainty of recovering the carrying amount of the asset. A qualification based on the uncertainty of recoverability, however, is not a substitute for recognition of a loss when such recognition is appropriate.

10. Paragraph 74 of FASB Statement No. 5, "Accounting for Contingencies," states:

> The accrual of some loss contingencies may result in recording the impairment of the value of an asset rather than in recording a liability, for example, accruals for expropriation of assets or uncollectible receivables. Accounting presently recognizes impairments of the value of assets such as the following:
>
> a) Paragraph 9 of Chapter 3A, "Current Assets and Current Liabilities," of ARB No. 43 [section 2031.09] provides that "in the case of marketable securities where market value is less than cost by a substantial amount and it is evident that the decline in market value is not due to a mere temporary condition, the amount to be included as a current asset should not exceed the market value."
>
> b) Statement 5 of Chapter 4, "Inventory Pricing," of ARB No. 43 [section 5121.07 - .08] states that "a departure from

cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost.... A loss of utility is to be reflected as a charge against the revenues of the period in which it occurs."

c) Paragraph 19 (h) of APB Opinion No. 18 [section 5131.19 (h)], "The Equity Method of Accounting for Investments in Common Stock," states that a "loss in value of an investment which is other than a temporary decline should be recognized the same as a loss in value of other long-term assets."

d) Paragraph 15 of APB Opinion No. 30 [section 2012.15], "Reporting the Results of Operations," states that "if a loss is expected from the proposed sale or abandonment of a segment, the estimated loss should be provided for at the measurement date. . . ." Paragraph 14 [section 2012.14] states that the measurement date is the date on which management "commits itself to a formal plan to dispose of a segment of the business, whether by sale or abandonment."

e) Paragraph 183 of APB Statement No. 4 [section 1027.09] states that "when enterprise assets are damaged by others, asset amounts are written down to recoverable costs and a loss is recorded."

And paragraph 75 of that Statement says:

A recurring principle underlying all of these references to asset impairments in the accounting literature is that a loss should not be accrued until it

> is probable that an asset has been impaired and the amount of the loss can be reasonably estimated. As indicated by those references, impairment is recognized, for instance, when a nontemporary decline in the market priced of marketable securities below cost has taken place, when the utility of inventory is no longer as great as its cost, when a commitment, in terms of a formal plan, has been made to abandon a segment of a business or to sell a segment at less than its carrying amount, when enterprise assets are damaged, and so forth. The condition in paragraph 8(a) is intended to proscribe accrual of losses that relate to future periods, and the condition in paragraph 8(b) further requires that the amount of loss be reasonably estimable before it is accrued.

But paragraph 31 of the Statement states:

> In some cases, the carrying amount of an operating asset not intended for disposal may exceed the amount expected to be recoverable through future use of that asset even though there has been no physical loss or damage of the asset or threat of such loss or damage. For example, changed economic conditions may have made recovery of the carrying amount of a productive facility doubtful. The question of whether, in those cases, it is appropriate to write down the carrying amount of the asset to an amount expected to be recoverable through future operations is not covered by this Statement.

11. Paragraph 21 of FASB Statement No. 12, "Accounting for Marketable Securities," states:

> For those marketable securities for which the effect of a change in

> carrying amount is included in stockholders' equity rather than in net income (including marketable securities in unclassified balance sheets), a determination must be made as to whether a decline in market value below cost as of the balance sheet date of an individual security is other than temporary. If the decline is judged to be other than temporary, the cost basis of the individual security shall be written down to a new cost basis and the amount of the write-down shall be accounted for as a realized loss. The new cost basis shall not be changed for subsequent recoveries in market value.

12. Paragraph 17d of FASB Statement No. 13, "Accounting for Leases," stated:

> The estimated residual value shall be reviewed at least annually. If the review results in a lower estimate than had been previously established, a determination must be made as to whether the decline in estimated residual value is other than temporary. If the decline in estimated residual value is judged to be other than temporary, the accounting for the transaction shall be revised using the changed estimate. The resulting reduction in the net investment shall be recognized as a loss in the period in which the estimate is changed. An upward adjustment of the estimated residual value shall not be made.

13. Paragraph 15 of the December 15, 1978 exposure draft of a proposed FASB statement, "Capitalization of Interest Cost," stated:

> Because interest cost is an integral part of the total cost of acquiring a qualifying asset, its disposition shall be the same as that of other components of asset cost, e.g., as

> part of the charge to depreciation cost or to cost of sales. For the same reason, the usual accounting requirements for recognizing the lower-of-cost-or-market value of inventories, loss provisions on long-term contracts, and asset impairment shall apply.

14. That language was replaced by paragraph 19 of the final Statement (No. 34), issued October 1979:

> Interest capitalization shall not cease when present accounting principles require recognition of a lower value for the asset than acquisition cost...

15. Paragraph 168 of the July 31, 1979 FASB Discussion Memorandum on "Analysis of Issues Related to Reporting Earnings" states:

> However, there are some relatively unusual situations in which a change in the value of assets or liabilities is recognized... For example, the value of plant assets may be reduced when they have suffered impairment--a permanent reduction in their earning power.

## SURVEY OF PRACTICE

16. Entities have written down long lived assets in rare instances. Examples are presented in the appendix to this paper.

## ISSUES

### Threshold Issue

17. The threshold issue is whether the inability to fully recover the carrying amounts of long lived assets should be reported (that is, either recorded in the accounts or only disclosed) in financial statements.

18. Those who believe the inability to fully recover the carrying amounts of long lived assets should not be reported in financial statements have these reasons:

- There are too many difficulties in determining the amount at which a long lived asset should be reported, including inaccuracies inherent in forecasting future cash flows, the arbitrariness of ascribing revenue to a particular long lived asset, and the subjectivity of applying a discount rate to future cash flows.
- Future cash flows cannot generally be ascribed to individual assets because individual assets do not usually generate revenue; individual assets working with other individual assets do.
- Reporting the inability to fully recover the carrying amounts of long lived assets appears to be an attempt to adjust for the shortcomings of historical cost accounting and is a piecemeal approach to adopting current value accounting.

19. Among those who believe the inability to fully recover the carrying amounts of long lived assets should be reported in financial statements, views differ whether that should be (a) recorded in the accounts, (b) only disclosed, or (c) either recorded in the accounts or only disclosed depending on the circumstances.

20. Those who believe the inability to fully recover the carrying amounts of long lived assets should be recorded in the accounts have these reasons:

- Carrying amounts of assets should not exceed their recoverability.
- Inappropriate treatment in the accounts is not rectified by disclosure in the notes.
- Recording the inability to fully recover the carrying amounts of long lived assets should be similar to recording the inability to fully recover the carrying amounts of inventories and accounts receivable.

21. Those who believe the inability to fully recover the carrying amounts of long lived assets should be only disclosed have these reasons:

- Recording the inability to fully recover the carrying amounts of long lived assets in the accounts sometimes leads to abuse, for example, a company that makes an unreasonable writedown in one year to reduce charges to operations in future years.
- Although information concerning the inability to fully recover the carrying amounts of long lived assets may be useful, the amount at which an asset should be carried is too conjectural for presentation in the accounts. Disclosure only provides sufficient information.

22. Those who believe the inability to fully recover the carrying amounts of long lived assets should be either recorded in the accounts or only disclosed depending on the circumstances have these reasons:

- The inability to fully recover the carrying amounts of long lived assets should be recorded only when the reportable amounts can be determined with reasonable accuracy.
- The inaccuracies inherent in forecasting future cash flows, the arbitrariness of ascribing revenue to a particular long lived asset, and the subjectivity of applying a discount rate to the cash flows may preclude presentation in the accounts, but the possible effects, if material, should be disclosed.

Implemental Issue

23. If the inability to fully recover the carrying amounts of long lived assets should be reported in financial statements, the next issue is whether the concept of permanent decline in the ability to fully recover carrying amounts is satisfactory or whether an alternate concept should be sought.

24. Those who believe the concept of permanent decline is satisfactory have these reasons:

- The concept of permanent decline has provided sufficient guidance over the years and has not caused undue problems for preparers or users of financial statements.

- The concept of permanent decline properly restricts writedowns of long lived assets to rare situations in which the inability to fully recover carrying amounts is clear.
- Any change in the underlying principle may invite entities that would not otherwise do so to make arbitrary writedowns, which could lead to "big bath accounting."

25. Those who believe the concept of permanent decline is unsatisfactory have these reasons:

- The concept of permanent decline is not workable since permanent means forever and therefore has unduly restricted the application of the concept.
- The concept of permanent decline has been difficult to apply in practice because it is highly subjective.
- The concept of permanent decline has only rarely been applied in practice despite the increasing frequency of plant closings together with substantial losses on disposals of certain long lived assets resulting from plant closings.

Alternatives to Permanent Decline

26. If the concept of permanent decline is unsatisfactory, the next issue is what concept should replace the concept of permanent decline.

27. The accounting standards division is able to suggest only one alternative, a probability test such as that prescribed in FASB Statement No. 5:

- The probability that carrying amounts cannot be fully recovered.
- The reasonable possibility that carrying amounts cannot be fully recovered.
- The remote possibility that carrying amounts cannot be fully recovered.

28. Those who support that alternative have these reasons:

- The standards for determining probability, reasonable possibility, and remote possibility are more clearly defined in FASB Statement No. 5 than are those for determining permanent decline elsewhere in the literature.
- Permanent decline is an absolute test, which is difficult to apply; probability, reasonable possibility, and remote possibility are less than absolute tests, which, therefore are not as difficult to apply.

29. If the principles of FASB Statement No. 5 should be applied in recognizing the inability to fully recover the carrying amount of a long lived asset, the principles might be applied as follows:

| If the inability to fully recover the carrying amount is | and the amount (can) (cannot) be reasonably estimated | then |
|---|---|---|
| probable | can | record in the accounts |
| probable | cannot | only disclose in the notes to financial statements |
| reasonably possible | can or cannot | only disclose in the notes to financial statements |
| remotely possible | can or cannot | do nothing |

Measurement of Reportable Amounts

30. If the inability to fully recover the carrying amounts of long lived assets should be reported in financial statements, the amounts at which those long lived assets should be reported must be determined.

31. Paragraph 99 of FASB Statement No. 33 describes these various asset measurements, which may be appropriate in determining the amounts at which long lived assets should be reported (to the extent they are less than carrying amounts):

- Current reproduction cost. The amount of cash (or its equivalent) that would have to be paid to acquire an identical asset currently. If the reproduction cost of a used asset is measured by referring to the cost of a new asset, it may need to be adjusted for depreciation or amortization.

- Current replacement cost. The amount of cash (or its equivalent) that would have to be paid to acquire currently the best asset available to undertake the function of the asset owned (less depreciation or amortization if appropriate). This concept of replacement cost should be distinguished from the cost of replacing the service potential of the asset owned, called "current cost" in this Statement.
- Net realizable value. Assets are measured at the amount of cash (or its equivalent) expected to be derived from sale of an asset, net of costs required to be incurred as a result of the sale.
- Net present value of expected future cash flows. Assets are measured at the present value of expected future cash inflows into which the asset is expected to be converted in due course of business less the present value of expected future cash outflows necessary to obtain those inflows. This measure-

ment of an asset is often described as value in use.

- <u>Current cost</u>. Current cost is equal to the current replacement cost of the asset owned, adjusted for the value of any operating advantages or disadvantages of the asset owned. Current cost differs from current replacement cost in that current cost measurement focuses on the cost of the service potential embodied in the asset owned by the enterprise whereas current replacement cost may be a measurement of a different asset, available for use in place of the asset owned. Current cost will be less than current replacement cost if the service potential of the asset owned is less than the service potential of the asset that would replace it. That may be the case, for example, when the asset owned has a higher operating cost or produces an output of lower quality. Similarly, current cost may be less than current reproduction cost if identical used assets are not available for purchase and if acquisition of a new, but otherwise identical, asset would not be worthwhile because that asset is obsolete for the purposes of the enterprise concerned.

- <u>Recoverable amount</u>. The net realizable value of an asset that is about to be sold or the net present value of expected cash flows (value in use) of an asset that is not about to be sold.
- <u>Value to the business</u>. Value to the business may be defined as the lower of (1) current cost and (2) recoverable amount, where recoverable amount is measured at the higher of net realizable value and net present value of future cash flows. The rationale for measurement at value to the business is that the measurement of an asset should depend on the circumstances of the enterprise. Current cost is the appropriate measure if purchase of the asset would be worthwhile in current circumstances, i.e., if the value of the earning power of the asset is at least equal to current cost. In some cases, however, current purchase of the asset would not be worthwhile and current cost would then overstate the worth of the asset. If the asset is about to be sold, its worth to the business is limited to net realizable value. If the asset is not about to be sold (but would not be re-

placed), value in use would be an appropriate measure of the asset. Value to the business is often called "deprival value" because it can be assessed by assuming that the enterprise has been deprived of the use of an asset and asking how much the enterprise would need to be paid to compensate it for the loss. Current cost sets the upper limit for measurement of the asset. The maximum loss incurred by the enterprise, following deprival, would be limited to the current cost of the asset as long as replacement was possible. The assumption of deprival should not be interpreted literally; it is no more than a helpful analytical device. (As the above discussion indicates, the terms "value to the business," "deprival value," and "current cost or lower recoverable amount" all have the same meaning.)

32. Other asset measurements advanced (to the extent they are less than carrying amounts) include:

- Fair Value. The price at which an asset could be exchanged in a transaction, within a reasonably short time, between a buyer and a seller each of whom is well informed and willing and neither of whom is under a compulsion to buy or sell.

- Expected future cash flows without a discount rate applied. (See discussion of net present value of expected future cash flows in this paragraph 31.)

33. Some believe only one asset measurement should apply in all circumstances to achieve uniformity among enterprises.

34. Others believe judgment is necessary in selecting the asset measurement that best predicts future economic benefits as it is difficult to select one measurement that would be appropriate in all circumstances.

Other Issues

35. If the inability to fully recover the carrying amounts of long lived assets should be reported in financial statements, other issues that need to be addressed include the following.

36. Evidence of Inability to Fully Recover Carrying Amounts. Some indicators have been advanced as evidence of inability to fully recover carrying amounts. Some believe the existence of certain of those indicators would create a presumption that the carrying amounts of long lived assets cannot be fully recovered. Others believe such indicators are highly subjective and that there are no presumptive tests. The indicators that have been advanced include

- reduction in the extent to which a plant is used
- dramatic change in the manner in which an asset is used
- substantial drop in the market value of an asset

- change in law or environment
- forecast showing lack of long term profitability
- costs in excess of amount originally expected to acquire or construct an asset.

37. Accounting for Subsequent Recoveries. If the inability to fully recover the carrying amounts of long lived assets should be recorded in the accounts, the next issue is whether the carrying amounts should be adjusted upward (not to exceed the carrying amounts before the writedowns) for subsequent recoveries.

38. Those who believe the carrying amounts should be adjusted upward have these reasons:

- The ability to write the carrying amounts of long lived assets back up is consistent with accounting for short term marketable securities and allowances for doubtful accounts receivable.
- Entities would be more willing to write the carrying amounts of long lived assets down if they were permitted to adjust the carrying amounts for subsequent recoveries.
- Accounting for subsequent recoveries in the carrying amounts of assets is a more realistic measure of an entity's financial condition and the results of its operations.

39. Those who believe the carrying amounts should not be adjusted upward have these reasons:

- The ability to write the carrying amounts of long lived assets back up is inconsistent with accounting for inventories and for long term marketable equity securities.
- If entities are permitted to write the carrying amounts of long lived assets down and then back up, this will create a misleading "yo-yo" effect in the financial statements.
- Writing the carrying amounts of long lived assets down and then back up is a form of current value accounting, which violates the historical cost framework.
- Once a judgment is made that the carrying amounts of long lived assets should be written down, that judgment should not be changed.

40. Classification of Writedowns in Financial Statements. If the inability to fully recover the carrying amounts of long lived assets should be recorded in the accounts, the next issue is in what manner the writedowns should be classified, for

example, as losses, as additional depreciation, or as direct charges to equity.

41. As part of its conceptual framework project, the Financial Accounting Standards Board is studying the various ways in which transactions and other events and circumstances that decrease an enterprise's net assets should be classified in financial statements. The FASB calls this "display considerations." Accordingly, this paper does not deal with the issue of how the writedowns should be classified in financial statements.

* * * * * *

## ADVISORY CONCLUSIONS

42. These are the advisory conclusions of the Accounting Standards Executive Committee on the issues raised in this paper:

a. The inability to fully recover the carrying amounts of long lived assets should be reported in financial statements. (15 yes, 0 no)
b. The concept of permanent decline is unsatisfactory and an alternate concept should be sought. (15 yes, 0 no)
c. The probability test in FASB Statement No. 5 is a workable alternative to the concept of permanent decline. (15 yes, 0 no)

d. Judgment is necessary in selecting the asset measurement that best predicts future economic benefits as it is difficult to select one measurement that would be appropriate in all circumstances. (14 yes, 1 no)

e. If the inability to fully recover the carrying amounts of long lived assets is recorded in the accounts, future upward adjustments (not to exceed carrying amounts before the writedowns) should be permitted if evidence indicates a recovery. (10 yes, 5 no)

# APPENDIX

## Examples of Writedowns of Long Lived Assets and Disclosures

### CONROY, INC., 1975

Note G - Write-Down of Snowmobile Division Assets
During 1975, the Company wrote down the assets of the snowmobile division as follows:

| | |
|---|---|
| Inventories................. | $3,943,000 |
| Molds and tooling........... | 533,000 |
| Cost in excess of net assets of business acquired....... | 2,037.000 |
| Other....................... | 502,000 |
| | $7,015,000 |

The write-down was made in light of management's decision to substantially reduce total production and to manufacture only new model configurations. It also included the elimination of cost in excess of net assets of business acquired because of the loss record of the division and the significantly lower value of the business due to adverse industry-wide conditions.

### PPG INDUSTRIES, INC., 1977

Note 12: Other matters - Information related to write-down of certain assets in Puerto Rico is included in the Operations by Business Segment portion of the Financial & Operating Review section on page 8 of this report. Reference also is made to this section for additional information related to Business Segment Information for the year 1977; Translation of Foreign Currencies, Pensions, Capital Expenditures as to amounts required to complete capital projects approved prior to December 31, 1977 and Replacement Cost Information (unaudited).

Chemicals operating earnings, including the write-down of the Puerto Rico assets, declined by 59 per cent. The writedown followed a comprehensive review by management of the Puerto Rico operations. As a result of this review, it was determined that certain Puerto Rico assets had been impaired because of adverse economic factors. The major factor was the effect of the oil embargo in eliminating the feedstock and electrical power cost advantages that the Puerto Rico location was expected to provide. This factor, combined with plant and other operating problems, created an economic disadvantage. To reflect the impairment in the economic value of its assets, PPG has taken additional depreciation and amortization of $54.3 million in 1977 on certain assets of the wholly owned complex and has reduced its investment in the jointly owned operation by $20.1 million. After the writedown, the remaining net book value of the fixed assets of PPG's wholly owned complex and its share of the joint venture is $41 million.

APCO OIL CORPORATION, 1973

During 1973, the operating results from the Company's Argentine properties indicated a decline in production more rapid than had previously been anticipated. In addition, the Company was experiencing delays from the Argentine government in approving a planned waterflood project which was expected to increase considerably the total recoverable reserves of oil over the life of the contract. Based on new reservoir studies, the Company made an adjustment to the carrying value of the properties to bring it into accord with the future income expected to be received. Accordingly, $10,982,000 (which resulted in no tax benefit) was charged to operations in 1973.

DPF, INC., 1974

In accordance with its policy of re-examining its projection annually, the Company concluded that total future revenues should approximate aggregate future costs, including depreciation. It was further concluded, however, that certain components of the equipment portfolio began to experience (and should continue to experience) a significant deterioration in their rental revenues due to competition from equipment available at substantially lower prices, which equipment incorporates several technological advantages. Accordingly, an additional depreciation charge of $5,4000,000 ($1.33 a share) has been provided representing the excess of book value at May 31, 1974 of those components over projected revenues less remarketing costs through May 31, 1979.

TELEPROMPTER, 1973

## (E) WRITE-DOWNS OF ASSETS AND OTHER CHARGES AND CHANGE IN ACCOUNTING

In the fall of 1973, the Corporation drastically curtailed its extensive construction program and embarked on a program of emphasizing subscriber growth, rate increases and cost-cutting. Among the events which contributed to this change in corporate direction were rising interest and construction costs, lagging subscriber growth and the slower-than-anticipated development of pay TV and other ancillary services which might be offered to cable television subscribers, combined with the need to conserve the Corporation's available cash.

Simultaneously, the Corporation began a major review of its investment in unconstructed or partially constructed systems and of the carrying value of certain other assets whose value could have been affected by the changed direction of the Corporation.

This review has been completed and has resulted in the following write-down and other charges:

| | (000's omitted) |
|---|---|
| Write-down in the Corporation's investment in certain cable TV systems, as follows: | |
| Gary, Indiana | $ 2,923 |
| Joliet, Illinois | 2,716 |
| Newark, New Jersey | 2,194 |
| Charleston County, S.C. | 1,307 |
| Bridgeport, Connecticut | 1,157 |
| 14 additional cable TV systems and/or franchises | 3,303 |
| | 13,600 |
| Write-down to estimated value of investment in the Corporation's Oakland, California Cable TV system, now under construction (see Note 9(a) of Notes to Consolidated Financial Statements) | 10,382 |
| Write-down of investment in the Corporation's Hillsborough County, Florida Cable TV system, substantially representing goodwill allocated upon acquisition | 4,000 |
| | 27,982 |

| | |
|---|---|
| Write-down of deferred costs no longer believed to be recoverable, principally deferred program origination costs and deferred electronic data processing costs, including write-downs previously reported in third-quarter results | 4,886 |
| Provision for losses on other investments disposed of or to be disposed of in 1974, and estimated losses on abandoned leaseholds | 4,003 |
| Other charges | 573 |
| | $37,444 |

The write-downs in the Corporation's investment in cable TV systems has been applied to the following:

| | |
|---|---|
| Property, plant, and equipment | $17,806 |
| Cable TV franchises and goodwill | 4,972 |
| Deferred preoperating costs | 3,593 |
| Other assets | 379 |
| | 26,750 |
| Estimated losses during period held for sale | 1,232 |
| | $27,982 |

CARESSA, INC., 1977

Note -7:

In addition, the Company charged off during the fourth quarter the remaining excess cost over the fair value of the Raybuck investment ($258,843) based upon a determination that the value of this investment was permanently impaired.

HARDWICKE COMPANIES INC., 1977

Note-4:

...Further, this company has a very high debt to tangible net worth ratio and its bank financing is on a demand basis. This company is negotiating long-term financing. Its viability as a going concern may be impaired because of these liquidity problems. The Company believes, that due to these ongoing problems, the realization of their investment in WAK or any significant return thereon is doubtful for a considerable period of time and, therefore, reduced the carrying value of this investment....

CHILTON COMPANY, 1976

Note-1:

In 1976, management determined that with respect to one of its publishing properties, which had a carrying value of $6,000,000, there had been an impairment in its estimated future value, and accordingly, $2,000,000 was charged to operations. In 1977, a further impairment has taken place and, accordingly, an additional $1000,000 was charged to operations.

CITIES SERVICE, INC., 1978

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The Company has reported on the losses incurred by the Copperhill operations in each of the years since the initial modification and expansin was completed in 1973. The plant was designed for coproduction of several end products, including iron pellets. Revamping of the pellet plant facilities that was completed in 1978 did not produce the operating reliability or costs necessary to meet competition. Accordingly, the decision was made in March 1979 to discontinue the pelletizing operations, which were a significant part of the Cooperhill complex. In this connection, the carrying value of the Copperhill assets was adjusted downward (as of December 31, 1978 by $159,500,000) to reflect the newly planned configuration of continuing operations on a going-concern basis.

AMAX, INC. 1978

Note 4. Provision for Loss on African Investments

In 1977 declining nickel and copper prices adversely affected the current and projected earnings and cash requirements of Botswana RST Limited (BRST) and Roan Consolidated Mines Limited (RCM). As a result, the Board of Directors concluded that there was a permanent impairment in the carrying amounts of the Company's investments in these companies of $94,400 and $30,600 respectively. Accordingly, the 1977 Statement of Earnings includes a charge of $81,000 ($2.50 per share), after anticipated Federal income tax benefits of $44,000 to reduce these carrying amounts.