FINANCIAL ACCOUNTING II

II. IAS

IAS 36 – Impairments of Assets

- The objective of this Standard is to prescribe the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount.

FINANCIAL ACCOUNTING II

II. IAS

IAS 36 – Definition

- An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss.

Loss by impairment = Carrying amount – recoverable amount

FINANCIAL ACCOUNTING II

II. IAS

IAS 36 – Definition

- The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.
  - Value in Use – is the present value of the future cash flows expected to be derived from an asset
  - Fair value less costs to sell– is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

FINANCIAL ACCOUNTING II

II. IAS

IAS 36 – Definition

- Carrying amount is the amount that is written in the balance sheet
- It is the acquisition value less the accumulated depreciations and accumulated losses by impairments

FINANCIAL ACCOUNTING II

II. IAS

IAS 36 – Application

- It is not applied to inventories, construction contracts, employee benefits and to most of financial assets

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FINANCIAL ACCOUNTING II

II. IAS

IAS 36 – Identify the loss by impairment

Evaluate at the balance sheet data

Is there evidence of loss by impairment?

Yes → Impairment Test
Estimate the recoverable amount → Recognize the loss by impairment

No → Do nothing

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IAS 36 – Identify the loss by impairment

- At the balance sheet date it is necessary to verify if an asset is with na impairment; to do so, it must be considered internal and external information

IAS 36 –Identify the loss by impairment

Internal information	External information
Evidence of obsolescence or damages in the asset	Significant decrease in the market value of the asset
Restructuration plans and discontinuities operations	Adverse significant changes in terms of technology, market or legal
The asset is performing less than expected	Increase in interest rates

FINANCIAL ACCOUNTING II

II. IAS

IAS 36 – Reversion of a loss by impairment

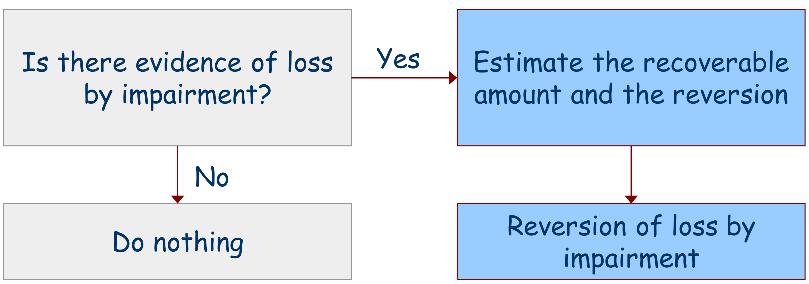
- At the balance sheet date it is necessary to verify if the loss by impairment from previous years decreased or no longer exists.
- The increase in the carrying value of the asset due to the reversion of the impairment cannot be higher that the carrying amount originally written.

FINANCIAL ACCOUNTING II

II. IAS

IAS 36 – Identificação da Perda de Imparidade

Evaluate at the balance sheet data



IAS 37 – Provisions, Contingent Liabilities and Contingent Assets

- prescribes the accounting and disclosure for all provisions, contingent liabilities and contingent assets.

FINANCIAL ACCOUNTING II

II. IAS

IAS 37 – Definition

- **A *provision* is a liability of uncertain timing or amount.**
- **A *contingent liability* is:**

a) possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity :

FINANCIAL ACCOUNTING II

II. IAS

IAS 37 – Definition *contingent liability* (cont.)

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.An entity should not recognise a contingent liability. An entity should disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote..

FINANCIAL ACCOUNTING II

II. As Normas Internacionais de Contabilidade

IAS 37 – Definiton

- ***A contingent asset*** is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.
- An entity shall not recognise a contingent asset. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate

FINANCIAL ACCOUNTING II

II. IAS

IAS 37 – Recognition

The firm **should not recognize**
Contingent assets and liabilities

FINANCIAL ACCOUNTING II

II. IAS

IAS 37 – Recognition

A provision should be recognized when:

- There is a present obligation as a result of past events;
- It is probable that will be an outflow of resources that incorporate future economic benefits to liquidate the obligation
- The value of the obligation can be estimated with reliability

IAS 37 – Measurement

- The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
- The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time.

FINANCIAL ACCOUNTING II

II. IAS

IAS 38 – Intangible Assets

- The objective of this Standard is to prescribe the accounting treatment for intangible assets
- An intangible asset is an identifiable non-monetary asset without physical substance.

FINANCIAL ACCOUNTING II

II. IAS

The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

(a) the definition of an intangible asset; and

(b) the recognition criteria.

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset and

those incurred subsequently to add to, replace part of, or service it.

FINANCIAL ACCOUNTING II

II. IAS

An asset is identifiable if it either:

(a)is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

FINANCIAL ACCOUNTING II

II. IAS

- Examples that are not intangible assets :
  - Constitution or installment costs
  - Personnel training costs
  - Advertising costs
  - Internal Goodwill
  - Internally generated brands
  - Portfolio of clients
  - Mastheads
  - Publishing titles
  - Costumer lists
  - Other similar items

Shall not be recognised as intangible assets

FINANCIAL ACCOUNTING II

II. IAS

Examples of intangible assets

- Patents
- Licenses
- Intellectual property (brands, copyright)

FINANCIAL ACCOUNTING II

II. IAS

IAS 38 – Recognition:

An intangible asset shall be recognised if, and only if:

(a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and

(b) the cost of the asset can be measured reliably.

The probability recognition criterion is always considered to be satisfied for intangible assets that are acquired separately or in a business combination.

FINANCIAL ACCOUNTING II

II. IAS

IAS 38 – Measurement

- An intangible asset shall be measured initially at cost.

The cost of a separately **acquired** intangible asset comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

(b) any directly attributable cost of preparing the asset for its intended use.

FINANCIAL ACCOUNTING II

II. IAS

IAS 38 – Measurement

- Internally generated goodwill shall not be recognised as an asset.
- No intangible asset arising from ***research*** (or from the research phase of an internal project) shall be recognised.
- Expenditure on research (or on the research phase of an internal project) shall be recognised as na **expense** when it is incurred.

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FINANCIAL ACCOUNTING II

II. IAS

IAS 38 – Measurement

An intangible asset arising from ***development*** (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) its intention to complete the intangible asset and use or sell it.

(c) its ability to use or sell the intangible asset.

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(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

IAS 38 – Measurement after recognition

- An entity shall choose either the ***cost model*** or the ***revaluation model*** as its accounting policy.

Cost model: After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

FINANCIAL ACCOUNTING II

II. IAS

Revaluation model: After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.

- For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market.

FINANCIAL ACCOUNTING II

II. IAS

- Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.
- If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

FINANCIAL ACCOUNTING II

II. IAS

IAS 38 –Measurement after recognition

An active market is a market in which all the following conditions exist:

(a) the items traded in the market are homogeneous;

(b) willing buyers and sellers can normally be found at any time; and

(c) prices are available to the public.

FINANCIAL ACCOUNTING II

II. IAS

- If an intangible asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.
- However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If an intangible asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance in the revaluation surplus in respect of that asset.

FINANCIAL ACCOUNTING II

II. IAS

- Useful life is

(a)the period over which an asset is expected to be available for use by an entity; or

(b) the number of production or similar units expected to be obtained from the asset by an entity.

FINANCIAL ACCOUNTING II

II. IAS

- An entity shall assess whether the useful life of an intangible asset is <u>finite</u> or <u>indefinite</u> and, if finite, the length of, or number of production or similar units constituting, that useful life.
- An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

FINANCIAL ACCOUNTING II

II. IAS

- The useful life of an intangible asset that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the entity expects to use the asset.
- If the contractual or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost.

FINANCIAL ACCOUNTING II

II. IAS

Intangible assets with finite useful lives.

- The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.
- ***Depreciable amount*** is the cost of an asset, or other amount substituted for cost, less its residual value.
- ***Amortization*** shall begin when the asset is available for use, ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- Amortization shall cease at the earlier of the date that the asset is classified as held for sale .

FINANCIAL ACCOUNTING II

II. IAS

- The ***residual value*** of an intangible asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
- The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

(a) there is a commitment by a third party to purchase the asset at the end of its useful life; or

(b) there is an active market for the asset and:

(i) residual value can be determined by reference to that market; and

(ii) it is probable that such a market will exist at the end of the asset's useful life.