

ACCOUNTING MEASUREMENT OF LONG-LIVED ASSETS: A CASE OF IMPAIRMENT PRACTICE

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Abstract

In accounting practices long-lived assets evaluation based on the current market situation is one of the most complex issues. For companies making large-scale investments in long-lived assets this question becomes vitally important because impairments of tangible assets and goodwill are significantly associated with future cash flows. The procedure for the evaluation of long-lived assets is regulated by the national accounting laws and international financial reporting standards, in particular IAS 36 "Impairment of Assets". However, many questions related to the practical application remain unresolved and lead to different interpretations and subjective judgments. Therefore, in some cases shareholders' expectations of future economic benefits from the use of long-lived assets are not fulfilled.

This article reveals the theoretical and practical relevance of the researched topic examines the existing approaches used by Latvian companies for measuring the value of long-lived assets and considers the peculiarities of information disclosure in their financial statements. Particular attention is paid to the importance of measuring assets impairment using the example of a Latvian fuel retail company. The authors' conclusions based on the study of Western publications and analysis of Latvian practices will be useful for the company management when forming the company's accounting policy for measuring and valuing long-lived assets, and may be taken into consideration by investors when developing investment strategies.

Keywords: long-lived assets, measurement, impairment, information disclosure.

1. INTRODUCTION

For the Latvian theory of accounting the term '*impairment of assets*' is an entirely new research topic, and the need for its serious examination has been urged by practical needs. Theoretically both researchers and professionals understand that the value of company assets is subject to significant changes due to the influence of external and internal factors. The opinions expressed by foreign researchers that depreciation and amortization expense is informative about a firm's investments and positively associated with future cash flows (Barth et al., 2001) sound convincing and logical, as well as the opposite positions stating that impairments will be indicative of a firm's inability to generate future cash flows (Gordon E.A., Hsu H.-T., 2012).

The global financial crisis started in year 2008 emphasized attention to business evaluation process by side of management and investors. Usually a company invests in long-lived assets with the goal to earn profit and generate positive cash flows in the future. In situations of asset impairment there is a risk of significant negative changes in future cash flows.

The authors of this article agree that if accounting standards allow managers to reveal private information about long-lived assets value, asset impairment is expected to be related to future cash flows. The major question is how to expect the effect of changes in the value of an asset due to impairment and how to provide transparent information to investors.

The main principles of accounting regulation of assets impairment are formulated in IAS 36, but do not provide detailed instructions how to do that. The practical application of the standards has always been challenging and problems have been brought into focus during the recent economic uncertainty. This fact determines the relevance of the research topic from both the theoretical point of view and the analysis of the current practice of impairment testing as the key element of Accounting Measurement of Long-Lived Assets.

The study *goal* was to examine how the Latvian companies measure a value of their long-lived assets, whether they use impairment testing and how this information is disclosed in their financial statements.

The results of the study allowed the authors to identify specific problems and patterns in accounting practice as well as formulate directions for further research aimed at developing an accounting policy for accounting measurement of long-lived assets for a large Latvian company.

The article may be of interest to financial statement users, regulators and standards setters.

2. RESEARCH RELATED TO IMPAIRMENT

2.1 Research problem description

Economic literature contains different interpretations of the term '*impairment*'. In any case '*impairment*' means a reducing book value of an asset due to certain circumstances. If something has lost its value, the logical question is whether it will be useful in the future. The authors believe that lost value measurements are always subjective, even if the calculation of impairment effect is based on mathematical models. Nevertheless the question of measuring the magnitude of possible losses due to impairment of assets is vitally important to companies in the rapidly changing economic environment and, therefore, is an important indicator of financial performance, which is also true in case of Latvian companies.

The laws of the Republic of Latvia, i.e. the Law "On Accounting" and the "Annual Accounts Law", contain only general guidelines, which are limited to the requirements to recognise a loss in case of asset impairment and disclose information in financial statements. In addition, certain provisions of laws pose more questions than answers. For instance, according to the "Annual Accounts Law", if it is impossible to determine the useful period for some long-lived asset (including goodwill), it shall be valued according to the acquisition costs from which there are deducted all accumulated losses from the reduction in value. Such interpretation makes it possible to accrue depreciation if you can set a useful period for some long-lived assets (including goodwill – *the authors' comment*).

In her study of the Latvian accounting legislation Inga Bumane, a Latvian researcher, notes that there are no particular time-limits of useful period for goodwill provided by the legislation of Latvia (Bumane, 2012), and offers a contrary point of view - goodwill is a non-amortisable asset and it should not be the subject to a regular calculation of amortisation costs.

The global financial crisis has also affected the operation of Latvian companies, forcing them to use the international standard IAS36 "Impairment of Assets". There is a common opinion among Latvian accountants that this is the vaguest and most undefined standard. Such position is understandable as this standard most clearly combines two concepts: the basic accounting principle – Conservatism and the basic concept of IFRS – Fair value, which presents two problems for the practical application of the standard:

1. How to ensure the objective measuring the reduction in carrying amount?
2. How to implement the concept of Fair value?

Conservatism directs the accountant to choose the alternative that will result in less net income and/or less asset amount (GAAP, US). Regarding the principle of conservatism a company should apply to ensure its assets in its balance sheet are carried at no more than its recoverable amount. Thus, conservatism requires impairment testing upon detection of asset value reduction factors. Recoverable amount implies the greater of the two values: fair value minus the costs to sell and value in use. In turn, impairment testing implies the process, which results in finding out whether the asset book value corresponds to the current market situation.

The practical application of the Fair value concept by Latvian companies is hampered by the factors investigated previously in 'The Concept of Fair Value and the International Financial Reporting Standards (IFRS)' (Kuzmina, 2006), which include:

- in most cases, there is no active market of corresponding valuing asset;
- inaccessibility of market prices for many assets and liabilities measured at fair value;

- strengthening institutional risk (coordination of state agencies' actions with respect to regulatory issues);
- problems related to the mathematical calculation of a hypothetical market value (fair value).

The practical reality is that accountants apply subjective assessment for many assets that will be required to be measured at fair value. The fundamental question is whether such hypothetical amounts are sufficiently understandable, reliable, relevant and comparable to be suitable for financial reporting? These circumstances call for improvement in accounting regulation of measurement and evaluation of long-lived assets in Latvia.

2.2 Research related to impairment in scientific literature

Given that the term 'impairment of assets' is still an incomprehensible phenomenon, so there are mixed views in Latvia on the nature and techniques of its measurement and evaluation, the authors of this articles reviewed the research publications by foreign authors in order to study the degree of this topic development in the international scientific literature. On the basis of the results of the theoretical study the authors concluded that the interests of foreign researchers are focused on the following research fields:

- History;
- Goodwill accounting and performance management;
- Long-term asset impairment under GAAP U.S. and IFRS: comparable analysis;
- Connection between impairment losses and impairment indicators;
- Long-lived asset impairments and predicting future cash flows;
- Practical issues of impairment testing.

Table 1 summarizes the results of the study of the viewpoints of some foreign researchers in the research fields listed above.

Table 1

Impairment of assets: researchers' views on the problem

Researcher(s)	Main research idea/conclusion (by the opinion of the authors of the paper)
History	
Rield (2004)	Reveals that there were write-offs of long-lived assets and nevertheless the statement (SFAS121, U.S. – <i>authors' comment</i>) was issued there were a lot of write-offs reported in decreasing quality.
Yamamoto (2008)	The asset impairment accounting comes from United States in order to imitate not allowed activities by side of companies' directors. Accounting of long-term asset impairment in Japan was only since year 2004.
Goodwill accounting and performance management	
Seetharaman, Screenivasan, Sudha and Yee (2006)	Goodwill is intangible asset that is not recommended to separate from the whole entity. Authors explored that it is crucial and necessary to developed new strategies in order to ensure that the goodwill has not to be impaired.
Comiskey, Mulford (2010)	Goodwill triggering events factors are following: significant changes in legal factors and in business climate; unanticipated competition, change in company's key personnel, market value decline; negative changes in technology, markets, the economy or laws, and internal sources (e.g. obsolescence of physical damage, etc.).
Lhaopadchan (2010)	Quite often in practice managers are interested to motivate various decisions related the goodwill impairment and therefore investors and analysts very often totally ignore reporting figures that also decreases reliability and relevance of the corresponding financial statements.
Schultze W., Weiler A., (2010)	The information required by US GAAP and by IFRS very often can be used in order to measure performance of the value creation and its realization within the company for internal purposes as well.
Giuliani M., Brännström D., (2011)	Stated that there are no any references to one common definition and the goodwill still could be defined as "black box". And that these definitions in real life are different from ones in other studies.
Long-term asset impairment under GAAP, US and IFRS: comparable analysis	
Comiskey, Mulford (2010)	Authors discussed various issues arisen by application of these standards and also indicating areas significant improvements need to be implemented.
Impairment losses and impairment indicators, information disclose	
Erlend Kvaal (2005)	Assets write-offs are associated with change in management (also Strong and Meyer 1987,

	Moore 1973, Francis et al.,1996)
Riedl (2004)	The results reveal weaker effects of economic factors on long-lived asset write-offs after the SFAS, US No. 121, And a higher association with so called “big bath” reporting behavior.
Vanza et al. (2011)	Authors find that impairments disclose private information to reduce uncertainty about firm value in the period prior to the global financial crisis in 2008 in Australia.
Peetathawatchai, Acaranupong (2012)	Found out that there is connection between impairment losses and indicators. Management of many companies uses in practice the recognition of impairment losses in order to smooth earnings in its increasing periods.
<i>Long-lived asset impairments and predicting future cash flows</i>	
Meeting and Luecke, (2002)	Gave the detailed explanation of the Statement No.144 on tests to be performed for recoverability long-lived assets.
Ullah, Farooq, Niazi (2010)	Investigated the effect of asset impairments on analysts’ choices of valuation models by the UK sample firms and find significant preference in discounted cash flow method after IAS 36 is applied.
Gordon E.A., and H.T.Hsu (2012)	The authors investigate the role of long-lived asset impairments in predicting future cash flows under U.S. GAAP and IFRS.
<i>Practical issues of impairment testing</i>	
Ullah, Farooq, Niazi (2010)	Accounting of impairment was still issue under discussions and there were no definite rules for amounts, timings, methods of impairment recognition, etc.
Lander, Reinstein (2004)	There is difference in timing when indicators of asset impairment and measurement will arise.
Christian Peterson, Thomas Plenborg (2007)	Two factors might explain why errors are present – the lack of an impairment manual and not involving employees with rigorous experience in firm valuation.
Erlend Kvaal (2005)	Goodwill impairments have little relationship with economic fundamentals. Accounting standards give little guidance on the techniques of discounting; for analytical as well as empirical research this area may be a promising challenge.
Loneragan (2010)	Describe the way how value in use has been required to be assessed in accordance with the IAS36 and how this process is prone to application misstatements developing conceptual and financial mismatches with other requirements of the accounting standards.
DeLisle and Grisson (2011)	Traditional valuation methods are not effective enough when there is a downward direction in the market.
Alexander Tsoy (2012)	Examining impairment accounting practice and impairment testing methods in Russia and Kazakhstan.

The results of study of foreign researchers’ opinions show that despite the fact that it has been a long time since the adoption of standards SFAS No.121 (issued in 1995) and IAS 36 (issued in 1998), many questions related to the practical application of these standards are relevant and are still up for debate. Monitoring the trends that have been taking place in the regulation of the application, in particular IAS 36, the authors can agree with the conclusion drawn by Seetharaman et al. in 2004. In their research stated idea that “nevertheless there are accounting standards stated and various explanations performed by international professional bodies the common treatment for goodwill has not and will not be defined in the nearest future” (Seetharaman, Balachandran, Saravanan, 2004). This conclusion can be attributed not only to the goodwill, but also to other categories of long-lived assets, which actually could be named as a "black box", taking into account the practical situation in Latvia in the field of accounting.

3. RESEARCH METHODOLOGY

The review of theory conducted in the previous section of this article allowed the authors to form a general idea of the interest in the topic “Impairment of assets” as well as the extent of its development in the scientific literature and formulate the basic research questions (RQ):

- RQ1 Do Latvian companies recognise asset impairment and how is long-lived assets write-off information disclosed in their financial statements?
- RQ2 Did the depreciation policy of companies change when the impairment loss was recognised?
- RQ3 How are impairment losses measured and what problems arise throughout the application of IAS36?

In order to answer RQ1 the analysis of financial statements of Latvian companies for 2010 and 2011 was performed to reveal the fact of impairment of various categories of assets. For the selection of companies the following main criteria were established:

- Non-financial and non-public private companies;
- Net sales volume is more than 10 mln Latvian Lats;
- Company's long-lived assets book value constitutes a substantial part of the total assets.

In this article Riga Stock Exchange listed Latvian companies are not taken into account as they all starting from 1995 have been required to prepare financial statements in accordance with IFRS. Listed companies have thus been applying IAS36, and for this reason can be researched in another more in-depth study, for example, methods for calculating impairment losses and its impact on cash flows.

In this case *lursoft.lv* database was used to study financial statements of 52 companies. The information on impairment of assets was disclosed in the financial statements of only 19 companies (36.5% of the total number of companies). However, out of 19 financial statements 7 were selected as only they contained the information useful for the analysis and conclusions. The researched companies represented 7 different industries. On the basis of the data presented in the financial statements a list of indicators were calculated in order to develop an understanding of the long-term impairment of non-financial assets and the extent of the impairment loss as well as to determine some peculiarities and relationships among the financial indicators.

The analysis of IAS36 application was conducted using the example of a Latvian fuel retail company, which, according to the annual survey done by a local magazine «*Lietišķā Diena*», was included into the Top 10 best reputation companies in Latvia in 2011 and recognised as the best service provider among trading companies. The company was founded in 1992 and is now a part of an international holding company. The enterprise employs 750 people. In 2011 the company turnover reached LVL 279.8 million (about EUR 398 million). The main sources of information used were the company financial statements for the period of 2003 – 2011 as well as additional information in the form of clarifications and explanations obtained during a focused personal interview with the financial officers the company. The authors examined the depreciation policy of the company as well as the method used for calculating the impairment loss. The study detected the most problematic areas of measurement and evaluation of long-term assets and disclosure of information in financial statements. The authors' conclusions and recommendations can be used to improve the long-lived asset management policy in the company system of corporate governance.

4. IMPAIRMENT ACCOUNTING PRACTICE IN LATVIAN FIRMS

4.1 Measure of the level of compliance with IAS36

The aim of *RQ1* was to check whether Latvian companies were following the concept of fair value in respect of their long-lived assets and whether they were striving for objective information disclosure in the interests of the investors. While reviewing the financial statements of the companies and attempting to answer *RQ1* the authors came to the conclusion that each company has its own approach to the disclosure of information, the logic of which is sometimes difficult to understand. Table 2 presents financial indicators calculated on the basis of reported data about long-lived assets, impairments and reversals by industries (where, LLA – long-lived assets; IA – intangibles; TA – total assets – *authors' comment*).

Table 2

Companies' reported data about long-lived assets and impairments by industries

Industry	LLA to TA ratio, %	IA to TA ratio, %	Accumul. depreciation to LLA, %	Net profit to Sales, %	Impairment for the year to equity, %	Impairment at the end of the year to equity, %
<i>Food processing industry</i>						
2010	77.6	0.30	51.8	-11.8	-	-3.5
2011	75.3	0.21	57.3	-20.1	+3.5	0.0
<i>Fuels retailing</i>						
2010	54.8	0.33	66.7	1.9	+1,01	+1,01
2011	51.9	0.27	71.3	1.08	-1,06	-0,01
<i>Logistic</i>						
2010	9.6	4.9	10.3	4.1	+0.33	+0.33

2011	11.3	7.5	10.5	-6.8	+0.83	+0.83
<i>Transaction with real estate</i>						
2010	70.0	0.01	1.65	-1354.0	-4.53	-28.7
2011	58.2	0.01	3.60	-168	-3.83	-13.4
<i>Real estate management</i>						
2010	14.0	0.0	1.4	-278	+0.20	-1.24
2011	13.4	0.0	3.2	5.10	+0.98	-0.15
<i>Metal processing industry</i>						
2010	21.1	0.01	98.0	-2.97	-13.5	-13.5
2011	17.2	0.01	117.01	-0.76	-1.7	-15.2
<i>Wood processing industry</i>						
2010	31.6	0.05	0.0	5.3	-1.85	-1.85
2011	25.4	0.07	0.0	3.8	+1.85	0.00

Source: The authors' calculations based on the companies' financial statements, years ending December 31, 2010 and 2011; www.lursoft.lv/data_bases_of_companies.html.

The general conclusions on the information disclosure in financial statements of the companies are presented below:

- 1) Accounting for long-lived asset impairment divides the assets into three categories:
 - property, plant and equipment with a definite-life,
 - intangible assets with a definite-life, and
 - goodwill.

(Intangible assets with an indefinite life other than goodwill are not presented in the financial statements of investigated companies – *the authors' comment*).

- 2) None of the companies applies impairment testing to intangibles; depreciation is the primary method for subsequent evaluation of intangible assets. Moreover, in the balance sheet all the companies show the initial cost of the asset minus the accumulated depreciation.
- 3) The companies use different approaches to the disclosure of information about the impairment in their financial statements. For example, some companies disclose information about investment property separately; others consider investment property as part of fixed assets.
- 4) The data on impairment are shown as both negative and positive. If a company has accumulated impairment losses from the previous periods, then a positive value in section 'Assets impairment' in the reporting year means recovery of loss. However, there are cases when the positive value appears in section 'Assets impairment' for the reporting year even if there are no losses accumulated in the previous years.
- 5) The highest impairment losses as a percentage of equity were registered in a real estate company (impairment of land) and a metal-processing enterprise (impairment of investment property).

4.2 Impairment of assets and depreciation (amortization) policy

The concepts of 'depreciation' and 'impairment' have a lot in common. Both are the methods for the subsequent evaluations of long-lived assets, both are based on the management vision of the future economic benefits an asset can bring to a company. For instance, the choice of the depreciation method for a company with high investments in then long-lived assets must be connected with the revenue earning policy if that company is willing to control its production costs. However, at their core, these are two fundamentally different concepts.

Impairment accounting is a concept within the historical cost model. The depreciation method is a system for allocating the investment cost over economic life. Depreciation does not reflect current value changes of the asset. Impairment accounting is a supplement to depreciation within the historical cost model that may apply if the book value of an asset exceeds its recoverable amount. It can be argued that the development of the write-down concept is inextricably linked with the development of depreciation, nevertheless these two methods are based on different accounting concepts: the depreciation method is the demonstration of the concept of conservatism, whereas assets impairment is the method for implementing the concept of fair value. To answer RQ2 the authors analyzed the depreciation policy of a fuel retail company (further Company Y – *authors' comment*) for the period 2005 - 2011. The data presented in Table 3 show average depreciation rates and the changes in the context of the company's individual long-lived assets for the period 2005 - 2011.

Table 3

Company Y: Depreciation and Amortization of long-lived assets

Period	Tangible assets			Non-goodwill Intangibles			Goodwill		
	Hist ori-cal cost, <i>thsd</i> <i>LVL</i>	Dep reci- ation per year, <i>thsd</i> <i>LVL</i>	Depr e-ciation rate, %	Hist ori-cal cost, <i>thsd</i> <i>LVL</i>	Amo rti-zation per year, <i>thsd</i> <i>LVL</i>	Amo rti-zation rate, %	Histo ri-cal cost, <i>thsd</i> <i>LVL</i>	Amo rti-zation per year, <i>thsd</i> <i>LVL</i>	Amo rti-zation rate, %
2005	37698	2275	8.1	772	116	15.0	418	241	57.7
2006	40433	2432	7.8	442	62	14.1	177	177	100.0
2007	43461	2855	7.6	600	60	10.0	245	0	0
2008	61703	3421	8.3	328	57	17.3	245	245	100.0
2009	65197	3567	8.5	266	41	15.5	0	0	0
2010	65877	3604	9.2	236	30	12.6	0	0	0
2011	67895	3508	8.8	209	27	12.7	0	0	0

Source: The company Y financial statements, years ending December 31, 2005-2011;
www.lursoft.lv/data_bases_of_companies.html; authors' calculations.

Table 3 data show that the average depreciation rate of tangible assets did not change significantly, despite the fact that in the analyzed period the company assets increased 1.8 times. With regard to the tangible assets, the company adheres to the straight-line method of calculating provisions for depreciation.

The intangible assets represent a small part of the total company assets, so amortization rate deviations that occurred during the period, could not have had a significant impact on financial performance. With respect to goodwill, the depreciation policy had been applied up to 2009; in 2008 goodwill disappeared from the balance sheet.

General conclusion: during the studied period the company adhered to a stable depreciation policy for the tangible assets, which constituted more than the half of the company total assets (see Table 2). The depreciation policy for the intangible assets was revised in 2009.

4.3 Actuality of accounting measurement of long-lived assets

In this part of the paper key financial indicators are calculated to show effectiveness of use of Company Y tangible assets and the analysis of their dynamics is conducted for the period from 2003 to 2011 (source: Published financial statements of the company for the reporting period). The set of indicators is designed to measure:

- a company's ability to generate revenues from long-lived investments (Tangible assets turnover);
- profits generated by tangible assets (Return on tangible assets);
- involvement of fixed assets in generating cash flow from operating activity;
- the trends in indicators' performance and to determine the relevance of the problem from investors' point of view.

The research results presented in Table 4 show improvement of the financial situation in 2010 after a significant decline in 2009. However, in 2011, despite the gasoline price increase, tangible assets generated lower net income (9.5%) and lower cash flow from operating activity (only 14 santims per each Lat of the value of depreciated tangible assets). Tangible assets turnover ratio, which measures a company's ability to generate revenues from long-lived investments also decreased compared to 2010.

Table 4

Company Y: Long-lived assets performance financial indicators

	2003	2004	2005	2006	2007	2008	2009	2010	2011
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Return on tangible assets, %	9.6	8.2	15.5	17.2	26.7	7.1	4.1	16.7	9.5
Tangible assets to Total assets ratio, %	65.3	62.9	51.4	47.2	45.6	52.7	55.6	54.8	51.9
Tangible assets turnover ratio, LVL*	324	457	626	974	1045	1112	839	1008	986
Operating Cash Flow* to tangible assets, LVL	0.18	0.29	0.18	0.10	0.44	0.18	0.43	0.55	0.14
Return on Equity, ROE, %	10.1	7.4	15.4	17.4	29.0	7.0	3.7	14.3	7.4
Price in LVL/Liter**	0.49	0.54	0.55	0.61	0.64	0.76	0.61	0.78	0.96

Source: The authors' calculations based on the company Y financial statements, years ending December 31, 2003-2011; www.lursoft.lv/data_bases_of_companies.html.

* Only the assets for which depreciation is calculated are taken into account.

**Price notification for type of gasoline Super (sources: <http://gasoline-germany.com/international.phtml?land=11> in 2007-2011, and <http://www.spoki.lv/aktuali/Degvielas-cenas-95/329946> in 2003-2006).

Significant fluctuations of ROE coefficient can cause a lot of questions from the users of financial statements; one of the first questions might be “Are the methods used for the measurement and evaluation of long-lived assets adequate to the current market situation?” Perhaps, long-lived assets book value is overstated?

4.4 Measurement of impairment losses

RQ3: How are impairment losses measured and what problems arise throughout the application of IAS36?

The Company Y started to apply IAS36 in year 2009 – due to recent global financial crisis the owners asked to value asset impairment. In 2010 the company used impairment testing for the first time to measure and evaluate the amount of potential impairment losses for certain objects of real property (the total amount – LVL 386 thsd.). DSF method and discount rate equal to 9.5% were applied for the calculation of the impairment loss. Having examined the calculation of impairment losses, the authors concluded that the most difficult are the issues related to the calculation of recoverable amount, including the discount rate used as well as the organisation of the re-evaluation process. The appropriate way to calculate the discount rate is complex subject, and one about which there is much academic literature, but at the same time there is no general consensus. Also many questions arose when studying financial statements of other companies that have been mentioned earlier in this article. The most debated issue is the discount rate, on the basis of which future cash flows are projected. For example, companies operating in the same industry for the same date use different discount rates: 9.5% and 16%. Can investors trust the provided information? The practical reality is that accountants apply subjective assessment for many assets that will be required to be measured at fair value. Determining an appropriate discount rate that reflects current market assessments and the appropriate risks will often be difficult and will require consideration and input from financial management, corporate management and valuation professionals.

By the opinion of researcher Kvaal Erlend (Erlend, 2005), as impairment losses generally contain unfavourable information about expected future performance, the question arises as whether firms attempt to provide transparent information to help investors better assess the implications of the impairments for future cash flows.

5. CONCLUSIONS

The results of the research conducted by the authors of this article show that the topic of accounting measurement and evaluation of long-lived assets and there financial performance remains the subject for considerable debate among scholars and professionals. Latvian companies are making their first attempts to implement IAS36 but facing a number of challenges, i.e. they now need to address serious issues of both organizational and methodical nature. The studies conducted in this field of knowledge and the provisions of

international accounting standard IAS36 are more focused on various aspects of accounting measurement of goodwill impairment and information disclosure, and to a lesser extent, deal with the issues related to accounting regulation of a company's tangible or fixed assets impairment. This explains the attention of the authors of this paper to the category of long-lived assets.

The authors came to the following conclusion. The problems connected with the practical application of the above standard can be explained by the fact that impairment of assets is a *multidimensional issue*, and one person - an accountant - is obviously unable to solve it, even if the company may have developed a detailed accounting policy. This conclusion is based on the following arguments:

- 1) In accordance with the provisions of the standard, for each reporting date the organisation must identify the signs of possible impairment of an asset, which can be attributed to the factors of the external and internal environment. It is within the competence of the financial analyst or economist, possibly with the participation of the technical director responsible for purchases of production equipment, but not the competence of the accountant.
- 2) When conducting impairment testing a question arises "How to calculate the recoverable amount, i.e. the economic benefits that the asset will bring to the company in future?" Here it is necessary to choose the highest out of two values: the fair value of the asset being tested minus the costs to sell or the value in use. In order to determine the fair value there must be an active market for the object of evaluation and the knowledge of that market (the competence of the marketing department). Objective measurement of the value in use can only be made by a professional evaluator.
- 3) Under the IAS36 impairments of tangible assets and goodwill are significantly associated with future cash flows. If it is not possible to determine the future cash flow for a separate object, the notion of cash generating unit (CGU) is introduced, i.e. the smallest identifiable group of assets that generates cash flows, which are largely independent from cash flows of other assets. In this case the most widely discussed issues are the criteria, level, and number CGU's defined. In the case of Company Y, an organisation with an extensive organizational structure, a department, which is responsible for the sale of gasoline and services and which independently generates cash flows, can be considered a CGU. In other words, for the company it is now important to develop a financial structure with allocated centres of financial responsibility. Resolving this issue is within the competence of the company's management.

The range of problems considered above proves that measurement and evaluation of long-lived assets is directly related to corporate governance and cannot be ignored when developing investment strategies.

Large variations in terminology and presentation in the companies' financial statements increase the need for individual interpretation and urges the need for further research aimed to develop methodological approaches to the accounting measurement of long-lived assets as well as to research the impact of individual elements of long-lived assets recoverable amount calculation on generation of the cash flows in the context of the strategic management of the company.

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