

## LONG-LIVED NON-FINANCIAL ASSETS IMPAIRMENT IN LATVIAN LISTED COMPANIES

**Ieva Kozlovska**

*Ph.D. student in BA School of Business and Finance,*

*Kr. Valdemara 161, LV-1013, Riga, Latvia*

*e-mail: ieva.kozlovska@ba.lv*

### **Abstract**

Purpose of this research – To explore key aspects to consider in analysing information about impairment of long-lived non-financial assets reflected in financial statements, and to develop recommendations on what kind of issues should be considered in ensuring the accounting concept “*true and fair view*”.

Design / methodology / approach – The research is based on the analysis of 1) theoretical literature and research papers within the area of evaluation of long-lived non-financial asset impairment; 2) IAS 36; 3) the results of a survey, which in this research work sticks to a questionnaire containing 16 questions. The survey was sent out to all 28 Latvian companies listed on the Baltic Stock Exchange; the number of respondents was 25.

Findings – The main finding of this research paper is the identification of key issues to be considered in the impairment of long-lived non-financial assets to be sure a company’s financial statements reflect the real situation and conservatism of financial reporting has been ensured.

Research limitations / implications – There is a need for further research to find out whether / how the impairment (recognition / reverse) of long-lived non-financial assets influences companies’ financial results and information reflected in financial statements. The research period is from the end of the year 2013 to the year 2015.

Practical implications – The results of this research could be beneficial for academic researchers as well as educators and practitioners of financial statement analysis. The results obtained provide the possibility to identify problems in accounting practice with regard to impairment of long-lived non-financial assets and to formulate recommendations for further research.

Originality / value – The research conducted enabled the definition of possible problems in the accounting and reporting process of long-lived non-financial asset impairment in Latvian companies listed on the Baltic Stock Exchange.

**Keywords:** long-lived non-financial assets, impairment, IAS36.

### **1. INTRODUCTION**

The current paper sets out to analyze issues related to the impairment of long-lived non-financial assets among Latvian companies listed on the Baltic Stock Exchange. There are different international and local laws and regulations that pertain to accounting of these assets for companies operating in the Republic of Latvia. But for a few years already, Latvian companies listed on the Baltic Stock Exchange have had to report their annual reports in accordance with International Financial Reporting Standards (hereinafter – IFRS), in particular International Accounting Standard 36 “Impairment of Assets” (hereinafter – IAS36).

The importance of issues related to the impairment of long-lived non-financial assets supports the idea expressed in many studies that it plays a significant role in defining the real value of a company’s assets reflected in its financial statements. Plus, taking into account that in the year 2014 the average proportion of these assets in the balance sheets of Latvian companies listed on the Baltic Stock Exchange was 48% (for most companies up to 97%), practices applied on impairment are essential to ensure transparent financial accounting and reporting. Usually this information is used by companies’ management and shareholders in decision-making processes as well as various other users to predict companies’ future cash flows and financial results. Also, the global economic situation stresses the importance of this issue.

The results of this research should be beneficial for academic researchers as well as educators and practitioners of financial statement analysis. The results obtained will provide the author with the

possibility of identifying possible problems in accounting practice with regard to impairment of long-lived non-financial assets and formulating recommendations for further research.

## **2. THEORETICAL FRAMEWORK OF THE RESEARCH**

### **2.1. LONG-LIVED NON-FINANCIAL ASSETS**

Long-lived non-financial assets are assets which should be used for more than one accounting period, ensuring a company's basic business operations, plus generate profit for the company. Often companies make significant investments in acquiring this type of asset. Companies use these assets in their operations for a longer period of time in comparison to short-term assets. Therefore, companies also have more difficulties in evaluating the fair value of these assets. This leads to the fact that a company's policy on impairment evaluation does have a considerable role in the company's financial performance. Very often there are situations where these assets also constitute a significant proportion of total assets in a company's balance sheet (Kozlovska, 2015). Therefore, the values of long-lived non-financial assets reflected in a company's balance sheet play a significant role in the decision-making processes of the company's management, the shareholders (existing / potential) and other users of the company's financial data.

### **2.2. IFRS FOR IMPAIRMENT OF LONG-LIVED NON-FINANCIAL ASSETS – IAS36 “IMPAIRMENT OF ASSETS”**

In accordance with International Accounting Standard 36 “Impairment of Assets”, every year on the balance sheet date, Latvian companies on the Baltic Stock Exchange have to assess whether there are any indications that a definite long-lived non-financial asset should be tested for impairment. In case there are such indications, the company must do an estimation of the recoverable amount of the particular asset. The exception is goodwill. In this case, impairment should be performed annually. Theoretically both researchers and professionals understand that the value of company assets is subject to significant changes due to the influence of various external and internal factors. In the author's opinion the issue this research paper deals with is, at the moment, a very significant one companies are forced to deal with.

The key objective of IAS36 is to ensure that long-lived non-financial assets reported in a company's financial statements reflect their real value – not more or less than the recoverable amount (the amount that can be obtained by either using them or selling them). This standard should be applied to all the company's assets. The impairment should be performed every time the company's financial statements are prepared. It is different for goodwill. In this case impairment should be performed when there are any indications of the impairment identified.

IAS36 states that all of a company's long-lived non-financial assets should be grouped into cash-generation units. This unit is the smallest identifiable group of assets that generates cash flows independent from other assets. The only exception is goodwill, which generates cash flow on its own. Corporate assets such as research and development (hereinafter – R&D) present a problem. When tested for impairment, these assets do not generate cash flow independently. Therefore, in this situation these assets contribute to future cash flows not only of the cash generating unit under review, but also of other cash generating units (Burton, Jermakowicz, 2015).

### **2.3. THE INFLUENCE OF IAS36 ON A COMPANY'S FINANCIAL PERFORMANCE**

In the author's opinion, today the problem this research paper deals with is a very significant one companies are forced to deal with. The importance of issues related to impairment supports the idea expressed in many studies that impairment of long-lived non-financial assets plays a significant role in defining the real value of these assets reflected in companies' financial statements. Nowadays the economic situation also stresses the importance of this issue. In order to evaluate the real situation and take the right decisions, it is very important that the values of these assets reflected in companies' financial statements show their real, existing value and that impairment loss or reversal have been reflected in annual reports accordingly (Kozlovska, 2012).

The global financial crisis that started in the year 2008 emphasized that management and investors need to pay more attention to the process of company evaluation. Usually a company invests in long-lived non-financial assets with the goal of earning a maximum profit and generating positive cash flows in the future. But in the case of asset impairment, a risk of significant negative changes in future cash

flows arises. The author maintains that if accounting standards allow managers to reveal private information about long-lived non-financial asset values, impairment is expected to be related to future cash flows. The key problem is how to anticipate all possible effects of changes in the value of a long-lived non-financial asset due to impairment. A similar issue relates to the way this information has been presented to a company's shareholders (Kuzmina, Kozlovska, 2012).

The idea of impairment for long-lived non-financial assets was developed to ensure the reliability of financial statements due to increasing manipulative activities on the part of companies' management which were identified in devaluation of assets. This process does have a significant influence on investors' decision-making processes and also the reliability of earnings (Zucca, Campbell, 1992).

Rennekamp, Rugar, and Seybert (2015) found that managers who are responsible for all decisions to record asset impairment invest more in case the accounting effect of the impairment is reversible as opposed to when it is not reversible. The author believes this issue is quite critical for the accounting concept of true and fair view. According to Trottier (Trottier, 2013), an online research instrument delivered to more than 100 Canadian managers concluded that managers are different in the way they record the impairment of long-lived non-financial assets. Those least likely to record impairment have specific bonus systems related to results and irreversible impairment rules. Managers who are more likely to record impairment are those who are sure this amount will be recovered in the next accounting periods.

Accounting setters are trying to improve legislation to ensure more transparent accounting. In January 2013, the European Securities and Markets Authority (hereinafter – ESMA) stated that there was about EUR 800 billion of intangible asset goodwill in the balance sheets of Europe's largest companies. Nevertheless, ESMA pointed out that only 5% of this goodwill was written off, although the situation on European stock markets was not positive. There was a very similar situation during the same period in the United States. Various issues regarding IAS36 and impairment of long-lived non-financial assets arose. Impairment of goodwill in most cases has been accompanied with impairment of other long-lived assets (Komissarov et al., 2014). IAS36 theoretically improves the representational faithfulness of financial reporting by increasing the correspondence between an asset's current value and its book value in situations when its economic value has been recovering. Also, it could cause managers to record losses in crisis situations more truthfully knowing they will be allowed to reverse it in the future. On the other hand, this norm could cause a situation where managers try to manipulate the timing of loss recognition and reversals in order to achieve some specific objectives. Allowance of reversals of impairment increases convergence of reporting practices among various accounting managers and ensures that accounting data related to impairment are more consistent, comparable, and timely (Trottier, 2013). The point of view of Piosik and Rówińska is based on the idea that asset impairment is influenced by changes in senior management more than company financial performance (Piosik, Rówińska, 2012). IASB's accounting model confirms its "ambiguous" nature; it is prepared based on past data and partially also on future forecasted data (Pozzoli, Romano, and Romolini, 2011). Also, stock exchanges do have significant influence on how impairment of long-lived assets has been reported in companies' financial reports. China is a good example. China-specific performance-based listing requirements plus recent experience evaluating how IASB's recent developments in legislation of impairment shows that Chinese listed companies tend to reverse asset impairment. The key motivating factors are reducing and avoiding the possibility of trading suspension or even de-listing (Shimen, Yeutang, and Ziye, 2009).

Non-recognition of long-lived non-financial asset impairment also exists. It is influenced by factors like compensation, reputation, etc. of companies' chief executive officers (hereinafter – CEOs), as well as violation of a bond indenture, etc. (Komissarov et al., 2014). According to Bond, Govendir, and Wells most Australian companies with indicators of impairment still do not recognise this impairment (Bond, D., Govendir, B., and Wells, P., 2016). Therefore, the author concludes that earnings management is closely related to the impairment of long-lived non-financial assets. The value relevance of reversal information has been negatively affected by regulatory-motivated earnings management. In an investigation performed on Taiwanese electronics companies, their management was found to be more likely to recognize impairment when there was a necessity to improve the company's operational results. And vice versa – companies whose performance per specific accounting / reporting period was not very good tried to support opportunistic behaviour (Wang, Chan, Lu, Chang, 2015). Furthermore, based on an empirical study performed by Chen and Cheng, impairment of assets is adopted by loss

listed companies as a tool to manipulate profit before and after the use of accounting standards related to long-lived non-financial asset impairment. And impairment of assets is one of the ways loss listed companies manipulate earnings as well (Chen, Cheng, 2014). The behaviour of asset impairment has been influenced by various factors of earnings management (Guo, 2013). Possible solutions in this situation are numerous – favourable internal and external monitoring mechanisms limiting this type of earnings management (Shimen, Yeutang, and Ziyue, 2009).

### 3. RESEARCH METHODOLOGY

The review of theory conducted in the previous section of this research paper allowed the author to form a general idea of the interest in the topic of impairment of long-lived non-financial assets in Latvian companies listed on the Baltic Stock Exchange as well as the extent of its development in the scientific literature and to formulate the basic research questions (RQ):

1. What are the key aspects to consider in analysing information about long-lived non-financial assets reflected in financial statements?

2. What kind of issues should a company consider regarding the impairment of non-financial long-lived assets?

In order to answer RQ1 and RQ2 the author analysed existing approaches and problems in Latvian companies listed on the Baltic Stock Exchange related to their practical experience in performing impairment of long-lived non-financial assets.

The author developed a survey exploring impairment practices for long-lived non-financial assets in these companies. Therefore, the author used real data (information) obtained from 25 out of 28 Latvian companies listed on the Baltic Stock Exchange in the period from the end of 2013 to 2015. The companies represent the following industries – basic materials (code: 1000), industrials (code: 2000), consumer goods (code: 3000), health care (code: 4000), telecommunications (code: 6000), utilities (code: 7000), financials (code: 8000) and technology (code: 9000).

The author has analysed financial statements and has developed a questionnaire for Latvian companies listed on the Baltic stock exchange and obtained answers to the following questions regarding evaluation of long-lived non-financial asset impairment:

1. What is the name of your company? (not mandatory)
2. What is the operating sector of your company?
3. Are you familiar with IAS36?
4. Which long-lived non-financial asset categories are being revaluated for impairment?
5. As of which year has evaluation of long-lived non-financial asset impairment been performed? (more than one answer possible)
6. What are the key internal and external factors influencing evaluation of long-lived non-financial assets for impairment? (more than one answer possible)
7. Do you have any comments / suggestions regarding existing legislation of impairment of long-lived non-financial assets?
8. What are the key sources of information used to define the fair value of long-lived non-financial assets evaluated for impairment? (more than one answer possible)
9. Does the company evaluating long-lived non-financial assets for impairment apply any discount rate?
10. What was the discount rate applied when the company performed the last impairment of its long-lived non-financial assets?
11. What factors did you take into account in defining this discount rate? (more than one answer possible)
12. Have you recognized impairment of any long-lived non-financial assets in financial statements per respective period? If so, how was this information reflected?
13. In case the company recognized impairment of any long-lived non-financial assets in particular financial statements, was the depreciation / amortization method for these assets changed?
14. How have impairment losses been recognized in the company's financial statements per particular period?
15. What types of problems has the company faced in implementing / applying IAS36?

16. What are possible problems and your opinion / suggestions regarding legislation of evaluation of long-lived non-financial asset impairment?

The author discovered that in most cases companies' long-lived non-financial assets also constitute a considerable part of companies' total assets in their statements of financial position or balance sheets. In the year 2014, on average this proportion in the balance sheets of Latvian companies listed on the Baltic Stock Exchange was 48%. For most of these companies this percentage was higher and for some companies it was up to 97%. Table 1 below displays information about long-lived non-financial assets in the balance sheets of Latvian companies listed on the Baltic stock exchange in the year 2014 (Kozlovskā, 2015).

Table 1

**Long-lived non-financial assets in the balance sheets of Latvian companies listed on the Baltic Stock Exchange (2014)**

Nb.	Company	Value of BS, FY 2014 (EUR)	Long-lived non- financial assets, FY 2014 (EUR)	Proportion of long-lived assets (%)
1	AS Baltic Telekom	2 329 019	-	0%
2	AS Brīvais Vilnis	8 908 364	4 031 823	45%
3	AS Daugavpils Lokomotīvu remonta rūpnīca	27 287 823	16 046 885	59%
4	AS Ditton pievadķēžu rūpnīca	11 280 116	5 818 535	52%
5	AS Grindeks	160 006 467	78 396 714	49%
6	AS Grobiņa	18 843 583	15 223 427	81%
7	AS Kurzemes Atslēga 1	1 906 371	702 764	37%
8	Kurzemes CMAS	1 669 729	908 057	54%
9	AS Latvijas Balzāms	123 497 624	53 577 753	43%
10	AS Latvijas Gāze	747 970	563 904	75%
11	AS Latvijas Jūras medicīnas centrs	7 246 744	5 059 945	70%
12	AS Latvijas Kuģniecība	60 957 855	2 310 338	4%
13	AS Latvijas tilti	24 964 140	9 113 038	37%
14	AS Olainfarm	106 723 000	53 522 000	50%
15	AS Rīgas autoelektroaparātu rūpnīca	5 726 988	4 000 124	70%
16	AS Rīgas elektromašīnbūves rūpnīca	39 197 228	22 471 218	57%
17	AS Rīgas farmaceutiskā rūpnīca	2 141 327	566 958	26%
18	AS Rīgas juvelierizstrādājumu rūpnīca	1 566 887	187 914	12%
19	AS Rīgas kuģu būvētava	46 854 780	30 024 202	64%
20	AS SAF Tehnika	12 076 449	728 993	6%
21	AS Saldus mežrūpniecība	31 840 134	20 080 685	63%
22	AS Siguldas CMAS	1 564 523	389 839	25%

23	AS Talsu mežrūpniecība	1 021 129	646 457	63%
24	AS Tosmares kuģubūvētava	10 288 965	6 182 931	60%
25	AS Valmieras stikla šķiedra	122 995 264	77 049 989	63%
26	AS VEF	5 817 411	5 627 504	97%
27	AS VEF Radiotehnika RRR	8 012 134	7 443 213	93%
28	AS Ventspils nafta	315 336 468	52 997	0%
			Average:	48%

Source: Nasdaq.com

#### 4. ANALYSIS OF THE RESEARCH RESULTS

In the author's opinion, nowadays the issue this section deals with and companies are forced to deal with is a very important one. This has been supported by numerous studies. Impairment of long-lived non-financial assets plays a significant role in defining the real value of these assets reflected in companies' financial statements. Managers who are responsible for all the decisions to record asset impairment invest more in case the accounting effect of the impairment is reversible as opposed to when it is not reversible (Rennekamp et al., 2015).

Also, accounting setters are trying to improve legislation to ensure more transparent accounting. According to Trottier, IAS36 theoretically improves the representational faithfulness of financial reporting by increasing the correspondence between an asset's current value and its book value in situations when their economic value recovers. Also, it could cause managers to record losses in crisis situations more truthfully knowing they will be allowed to reverse it in the future. On the other hand, this norm could cause a situation where managers try to manipulate the timing of loss recognition and reversals in order to achieve some specific objectives (Trottier, 2013).

Since the proportion of long-lived non-financial assets in the total balance sheet value is quite significant (on average 48%, but for some companies up to 97%) among Latvian companies listed on the Baltic Stock Exchange, it is very important that the values of these assets reflected in companies' annual reports show their real, existing value. In accordance with IFRS – IAS36, a company has to ensure that its long-lived non-financial assets reported in financial statements reflect their real value – not more or less than the recoverable amount (the amount than can be obtained by either using them or selling them). Impairment should be performed every time the company's financial statements are being prepared. The exception is goodwill.

Based on the results of the survey performed, the author came to the conclusion that although impairment of long-lived non-financial assets is a very important and hot topic, especially nowadays there are still companies that do not know what it is and do not apply this standard. 24% of the respondents answered that they have not heard about IAS36 and the term "impairment". 76% answered in the affirmative to the question of whether they have heard about IAS36 and "impairment". In some situations, this could be explained by management's beneficial situation. Non-recognition of impairment of long-lived non-financial assets does exist as well. It is influenced by factors like compensation, reputation, etc. of companies' CEOs, as well as violation of a bond indenture, etc. (Komissarov et al., 2014).

In Table 2.2.6. below the author has summarized which long-lived non-financial assets are being tested for impairment by Latvian companies listed on the Baltic Stock Exchange.

Table 2

**Categories of long-lived non-financial assets to be revaluated for impairment in Latvian companies listed on the Baltic Stock Exchange (2015)**

Fixed assets	%
Real estate	36
Equipment	21
Investment property	11
Other (not evaluated for impairment)	32

*Source: Author's own study*

Based on the results obtained, the author concludes that in Latvian companies testing for impairment, if it has been performed, it has been done only for fixed assets. Impairment of intangible assets is an unresolved issue on the global level as well. Also, from the answers received, the author found that Latvian companies listed on the Baltic Stock Exchange have performed evaluation for long-lived non-financial asset impairment since the years 1997, 2000, 2001, 2002, 2007, 2008, and 2011.

Theoretically both researchers and professionals understand that the value of company assets is subject to significant changes due to the influence of various external and internal factors defined in IAS. The opinions expressed by foreign researchers support the idea that the depreciation and amortization expense is informative about a firm's investments and positively associated with future cash flows (Barth, Cram, and Nelson, 2001). Although this sounds convincing and logical, there are opposing positions stating that impairments are indicative of a company's inability to generate future cash flows (Gordon, Hsu, 2012).

In assessing indications of possible impairment of long-lived non-financial assets, companies should consider various internal and external factors. IAS36 stipulates that on every reporting date, a company has to evaluate whether there are any indicators that a particular long-lived non-financial asset should be impaired. The exception is an intangible asset – goodwill – which should be evaluated for impairment on an annual basis. There are various internal and external factors mentioned in IAS36, but Table 3 below shows factors indicated by Latvian companies listed on the Baltic Stock Exchange.

Table 3

**Factors for possible impairment of long-lived non-financial assets indicated by Latvian companies listed on the Baltic Stock Exchange (2015)**

External factors	%	Internal factors	%
Situation on the market (increase / decrease of the value)	50	Asset's physical deterioration	27.8
Other (e.g. credit policy, asset not used for some period of time, asset has not been revaluated for impairment)	25	Asset's obsolescence	19.4
Negative trends / changes in the economy, legislation, market, technological development	12.5	Other (asset continues to participate in the production despite the fact that it has already been depreciated / asset has been revaluated only in case its value is lower than its market value / assets are not being revaluated for impairment)	19.4
The company's share value is lower than its book value	12.5	The relevant part of the fixed asset is written off or restructured	16.7
		The company's economic activity has not been as good and successful as planned	16.7

*Source: Author's own study*

Most Latvian companies listed on the Baltic Stock Exchange use market prices as information sources – 68% – while 21% use information attainable on the Baltic Stock Exchange. 12% use various other sources – certified experts' evaluations, previous experience or even auditors. Since 86% of long-lived non-financial assets impaired by Latvian companies listed on the Baltic Stock Exchange are related to real estate, investment property or equipment, the source of information is logical – information on the market constituting 66%. Other sources of information include information available on the stock exchange – 22% – and other sources such as assessments from certified appraisers, auditors' opinions, experts and historical data: 12%.

To calculate the recoverable amount of a particular long-lived non-financial asset evaluated for impairment it is necessary to compare the asset's fair value less cost to sale and the asset's value in use. The larger of these two amounts should be selected as the asset's recoverable amount. In order to calculate the asset's value in use it is necessary to perform a calculation of related cash flow projections and the discount rate. It is interesting that only 1 of the 25 companies surveyed indicated that it uses a discount rate. This rate has been defined based on national inflation interest rates, the country risk-free interest rate, and the market debt rate (e.g. 5Y USD SWAP rate + 3% risk margin on debt).

Hilton and O'Brien (2009) and Petersen and Plenborg (2010), cited in Paugam and Ramond (2015), found that impairment testing relies on evaluation models judged by the company's management (Paugam, Ramond, 2015). The results of the survey also show that the management decides whether and how to calculate the amount of long-lived non-financial asset impairment, and is able to manipulate calculations and figures reflected in financial statements.

The most important thing for users of companies' financial statements is the transparency of the information reflecting the companies' business per particular accounting period. Based on the author's investigation the situation in Latvian companies listed on the Baltic Stock Exchange is not very good. Only 60% of companies provide information related to impairment of long-lived non-financial assets in their financial statements. This information is reflected in the statement of comprehensive income (profit and loss statement), in the asset movement table in the notes or as a revaluation reserve in the statement of financial position or balance sheet. The author came to the conclusion that companies which do provide information about the impairment of these assets in their financial statements do so in the right way and as stipulated by IAS36. The remaining 40% of companies do not provide this information in their financial statements. Those that provide this information in their financial statements also mentioned that recognition of impairment of long-lived non-financial assets does not cause any changes in companies' depreciation / amortization methods for these assets. Therefore, the author can conclude that it is not safe to use the financial statements of Latvian companies listed on the Baltic Stock Exchange when the user is not sure he sees a true and fair view of the company's performance. Therefore, it is advisable for users, including shareholders, to be very attentive in case the company owns a significant amount of long-lived non-financial assets and to take into account that possible impairment should be recognized per particular accounting period. The author would like to emphasize this because some respondents answered the question "How does the company recognize in the company's financial statements the impairment loss of its long-lived non-financial asset value; and does the company encounter any problems in connection with the implementation of IAS36?" in the following way: "Since local accounting standards include all issues related to impairment under IAS36, we do not see any problems in the evaluation for the impairment process" or "our long-lived non-financial assets are very old and already depreciated. Therefore, we do not see a necessity to perform any impairment of these assets".

In accordance with legislation, companies listed on the Baltic Stock Exchange do have to report their financial statements under IFRS, including IAS36. Most answers received from companies providing impairment in their financial statements showed that there are not any problems regarding how to provide impairment loss in the company's financial statements – if companies do the accounting correctly as stipulated in IAS36. Companies that do not provide impairment in financial statements answered that this issue is not relevant at the moment since they do not provide this information. The author believes that practices related to impairment of long-lived non-financial assets and IAS36 should be viewed in a wider circle, not only among accountants, but also among managers and even shareholders. 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. Latvian companies are making their first attempts to implement IAS36 but facing a number of

challenges, i.e. now they need to address serious issues of both an organizational and a methodical nature (Kuzmina, Kozlovska, 2012).

The author also analysed answers received from companies about their opinion on today's topics and issues related to the application process for IAS36, what should be changed, implemented in legislation, etc. Companies which did have comments mentioned issues related to the complicated methodology for rebates of investments in these assets and to legislation and the experience of the European Union; the need for significant changes, especially regarding real estate; or they even answered that they have problems, but it is difficult to define those related to depreciation and amortization due to recognition of impairment. Only one company answered that they are satisfied with the existing rules and regulations.

Based on the results described above, the author believes that evaluation of long-lived non-financial asset impairment is problematic and there is a need to implement more detailed explanations regarding IAS36 and methodology, when and how companies should perform impairment. This is also because impairment influences the balance sheet values of these assets and also figures in statements of financial position or balance sheets and in statements of comprehensive income or profit and loss statements. Long-lived non-financial assets comprise a significant part of companies' total balance sheet values plus today's economic and political situation. A similar point of view has been expressed by Liu – asset impairment requirements are inconsistent and their treatment of the results of asset impairment is not standardized (Liu, 2012).

## 5. CONCLUSIONS

Based on the research performed, the author came to the conclusion that there is a significant need to develop specific models / mechanisms for companies to apply in order to manage evaluation of long-lived non-financial assets impairment. Not only companies, but also regulatory institutions and society as a whole should pay more attention to such issues. Today's economic and political situation and the process of globalization reinforces the importance of this topic.

The survey conducted by the author enabled her to explore the key aspects to consider in performing and analysing information related to the evaluation of long-lived non-financial asset impairment. The results obtained provide the author with the possibility to identify possible problems and areas for improvement in accounting practices and to formulate recommendations for further research.

It should be mentioned that the results of the survey are not as positive as expected. According to the study results, the situation in Latvian companies listed on the Baltic Stock Exchange is not very good. Only 60% of companies provide information related to impairment of long-lived non-financial assets in their financial statements. 24% of respondents answered that they have not heard about IAS36 and the term "impairment". This means that there is a possible risk of a situation where earnings management or manipulation of information in a company's financial statements could be identified. The theoretical research performed supports the author's conclusion about the close relatedness between earnings management and impairment of long-lived non-financial assets. The fact that in most companies investigated in this research long-lived non-financial assets constitute a considerable part of total assets in their balance sheets stresses the importance of issues related to the evaluation of impairment.

The goals of this research have been achieved. The results of this research may be beneficial for academic researchers, educators, and practitioners of financial statement analysis as well as the management of any company that has long-lived non-financial assets in its balance sheet. There is a need for further research to find out whether / how the impairment (recognition / reverse) of long-lived non-financial assets influences companies' financial results and information reflected in financial statements.

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