

**Statement of
Financial Accounting Standards
No. 35**

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Financial Accounting Standards Committee

Statement of Financial Accounting Standards No.35

Accounting for Asset Impairment

I Introduction

- (1) This Statement establishes accounting standards for the recognition and reversal of asset impairment.
- (2) This Statement does not apply to the following assets:
 - (a) Inventory (follow the principles set out in the Statement of Financial Accounting Standards No. 10, *Valuation and Presentation of Inventory*);
 - (b) Assets arising from construction contracts (follow the principles set out in the Statements of Financial Accounting Standards No. 11, *Long-term Construction Contracts*);
 - (c) Deferred tax assets (follow the principles set out in the Statement of Financial Accounting Standards No. 22, *Accounting for Income Taxes*);
 - (d) Assets under pension plans (follow the principles set out in the Statement of Financial Accounting Standards No. 18, *Accounting for Pensions*);
 - (e) Financial assets that are within the scope of the Statement of Financial Accounting Standards No. 34, *Accounting for Financial Instruments*. However, investment in (i) subsidiaries; (ii) investee companies under the equity method; and (iii) joint ventures is still applicable to this Statement; and,

- (f) Loans and receivables.
- (g) Non-current asset held-for-sale and asset group held-for-sale (follow the principles set out in the Statement of Financial Accounting Standards No. 38, *Non-current Asset Held-for-sale and Discontinued Operations*).

II Definitions

- (3) When this Statement establishes guidance on how to identify a potentially impaired asset and to measure the recoverable amount of an asset, the asset referred to is either an individual asset or a cash-generating unit.
- (4) The definitions of the terms used in this Statement are as follows:
 - (a) Cash-generating unit: the smallest identifiable asset group that can generate cash inflows that are largely independent of those cash inflows from other individual assets or other asset groups.
 - (b) Recoverable amount: the greater of an asset's net fair value or value in use.
 - (c) Net fair value: the obtainable amount from the sale in an arm's length transaction between two willing and knowledgeable parties, after the deduction of any disposal costs.
 - (d) Value in use: the present value of the expected future cash flows generated by an asset.
 - (e) Disposal cost: the incremental cost directly attributable to the disposal of an asset, after excluding financing costs and income tax expense.
 - (f) Impairment loss: the amount by which the carrying amount of

an asset exceeds its recoverable amount.

- (g) Carrying amount: the net amount of an individual asset's cost less than its accumulated depreciation (amortization) and accumulated impairment loss, that is recognized in the balance sheet.
- (h) Impairment test: a testing procedure of an enterprise used to determine the impairment loss of an asset by measuring the recoverable amount of the asset and then comparing it with the carrying amount of the asset.
- (i) Useful life: (i) the expected period of time that an individual asset can be used by an enterprise; or (ii) the expected units of output or equivalent units that can be derived from an individual asset by an enterprise.
- (j) Corporate asset: an individual asset, other than goodwill, that can contribute to the cash flows generated by the cash-generating unit under review and other cash-generating units.
- (k) Active market: a market that meets all of the following conditions: (i) the goods traded in the market are homogeneous; (ii) willing sellers and buyers can be found at any time; and (iii) the price information is available to the public.

III Explanation

Identifying an asset that may be impaired

- (5) The purpose for an enterprise to measure whether or not an asset is impaired is to ensure that its carrying amount does not exceed its recoverable amount. If the carrying amount exceeds the recoverable amount, then the asset is impaired.

(6) For an enterprise to evaluate whether there are any indications that an asset may be impaired, it should, at least, consider the following events:

(a) External information

- (i) The magnitude of decline of an asset's market value during the period is significantly greater than the expected decline as a result of the passage of time or normal use;
- (ii) Significant adverse changes in the industrial technology, market, economic or legal environment for an enterprise, or in the market to which the asset belongs, have occurred during the period or will take place in the near future;
- (iii) Market interest rate or other market rates of return on investments have increased during the period resulting in significant impact on the discount rate used to compute the value in use of an asset and, accordingly, the recoverable amount of the asset has significantly declined; and,
- (vi) The carrying amount of an enterprise's net assets is greater than its market capitalization.

(b) Internal information

- (i) There is evidence of an asset's physical damage or obsolescence;
- (ii) Significant adverse changes in the scope or in the manner in which an asset is used or is expected to be used have occurred or will take place in the near future; The changes include the asset to be idle, the

segment to which the asset belongs to be discontinued or restructured, the asset to be disposed earlier than it had planned to, and the asset life to be switched from indefinite to definite; and,

- (iii) Internal report shows that the economic performance of an asset will be worse than what had been previously expected.

(7) Besides following the rules stated in Paragraph 6 to evaluate whether or not there are indications that an asset is impaired, an enterprise may identify other indications that an asset is impaired, and these would also require the enterprise to determine the asset's recoverable amount to evaluate whether or not there is impairment loss.

(7-1) As it is more uncertain whether an intangible asset that is not yet available for use can generate sufficient future economic benefits to recover its carrying amount, accordingly, an enterprise has to perform impairment test annually for the intangible asset that is not yet available for use.

(8) Evidence from internal reporting that indicates that an asset may be impaired include the following:

- (a) Cash flow for acquiring an asset or for subsequent cash needs for operating or maintaining it that are significantly higher than the original budget;
- (b) Actual net cash flow, or operating income or loss generated by an asset that is significantly worse than the original budget;
- (c) Budgeted net cash flow or budgeted operating profit generated by an asset that is significantly less than the original budget, or budgeted operating loss is significantly more than the original budget; and,

- (d) Operating losses or net cash outflows for the asset, when current period figures are aggregated with budgeted figures for the future.

Materiality Principle

- (9) When an enterprise determines whether or not the recoverable amount of an asset should be estimated, the materiality principle should be considered. For example, if the previously estimated recoverable amount of an asset is significantly larger than its carrying amount and if no events have occurred to reduce the aforementioned differences, an enterprise need not re-estimate the recoverable amount of the asset.

Moreover, if the previously estimated recoverable amount of an asset is not sensitive to any indications as stated in Paragraph 6, no re-evaluation is needed. For example, although current market interest rate or other market rates of return on investments have increased such that they may affect the estimation of the recoverable amount, an enterprise is not required to make a formal estimate of an asset's recoverable amount if any of the following conditions has been met, which indicates that changes in such market interest rate or rates of returns are not sensitive.

- (a) The discount rate used to estimate the value in use of an asset is not affected by the increase in such market interest rate or rates of return. For example, the discount rate used for the asset with long remaining useful life may not be materially affected by an increase in short-term interest rate.
- (b) The discount rate used to estimate the value in use of an asset may be affected by the increase in such market interest rate or rates of return, but the previous sensitivity analysis on the recoverable amount shows that future cash flows may increase so that the recoverable amount will not be reduced significantly. For example, an enterprise may have the ability to increase its revenues to compensate for the increase in

market interest rate.

- (c) The discount rate used to estimate the value in use of an asset may be affected by the increase in such market interest rate or rates of return, but if the previous sensitivity analysis on the recoverable amount shows that the decrease in recoverable amount will not generate material impairment loss.

Measuring the recoverable amount of an asset

- (10) If there are no indications that the value in use of an asset significantly exceeds its net fair value, the net fair value should be used as the recoverable amount. This will often be the case for an asset that is held for disposal, since the cash flows from continuing use of the asset until its disposal are likely to be negligible; therefore, the value in use is almost the same as its net fair value. Conversely, if the net fair value of an asset is indeterminable, the value in use should be used as the recoverable amount.

Net fair value

- (11) The market price of asset is usually measured by using the current bidding price. If there is no current bidding price and if there are no significant changes in economic conditions between the trade date and the estimation date, the most recent trading price can be used to estimate the net fair value.
- (12) The asset disposal costs that are not yet recognized as a liability should be deducted to determine the net fair value. Such costs include legal fees, stamp tax and similar transaction taxes, asset removable costs and direct incremental costs to bring an asset into a saleable condition, etc. However, the termination benefits and business reduction or restructuring costs following the disposal of an asset are not included as asset disposal costs.

Value in use

- (13) An enterprise should use the following procedures to estimate the value in use of an asset:
- (a) Estimate the future cash inflows and outflows arising from the asset's continuing use and final disposal; and
 - (b) Apply an appropriate discount rate to the afore-mentioned future cash flows.

Basis for estimates of future cash flows

- (14) By inspecting the reasons for discrepancies between past estimates of cash flows and actual cash flows, management can evaluate the reasonableness of the related assumptions for the cash flows, which can be used to form the current estimates of cash flows. Management should ensure that the assumptions on which the current estimates of future cash flows are based upon are consistent with the past actual results, without considering the subsequent events or circumstances of the actual cash flows.
- (15) As financial projections or financial budgets over five years are usually not detailed or reliable enough, therefore, management should not rely on the financial projections or financial budgets that are over five years to estimate future cash flows. However, management may use cash flow projections based on financial projections or financial budgets over five years if management is confident that these projections or budgets are reliable, and if, based on past experience, management can demonstrate its ability to accurately forecast future cash flows over that longer period.
- (16) To estimate the future cash flows for the years beyond the period for which previous financial projections or financial budgets are made, the growth rates are estimated by using extrapolation. These growth rates usually are steady or declining unless there are objective evidences, consistent with the pattern of the product or industry life cycle, to show that they are increasing. Growth rates may be zero or even negative.

- (17) As the market is extremely favorable, competitors may join the market so that the growth rate is restrained. Accordingly, it is difficult for an enterprise to surpass the historical long-term (i.e., twenty years) average growth rate for the products, industries, or countries in which the enterprise operates.

Compositions of estimates of future cash flows

- (18) When an enterprise estimates future cash flows and discount rates, it should adopt consistent assumptions on the effects of general inflation. If the discount rate includes the effect of price increases due to general inflation, future cash flows are estimated in nominal terms. If the discount rate excludes the effect of price increases due to general inflation, future cash flows are estimated in real terms (but future specific price increases or decreases should still be considered).
- (19) When the carrying amount of an asset does not include all the future cash outflows that will be incurred prior to its intended use or sale (e.g., building under construction or development project not yet completed), the estimates of future cash outflows should include the expected cash outflows to be incurred before the asset is ready for its intended use of sale.
- (20) The estimates of future cash outflows should include the future expenses that can be attributed directly or allocated on a reasonable and consistent basis to the use of the asset.
- (21) The estimation of future cash flows should be based on an asset's current condition. Thus, value in use should not reflect the following events:
- (a) Expected cash outflows, or related cost savings (e.g., the reduction in labor costs) or benefits expected to result from an enterprise's uncommitted future restructuring. The so-called commitment means that the enterprise is constrained by an

irrevocable contract or plan; or,

- (b) Future cash outflows to improve or enhance an asset so as to upgrade its current level of performance, or related expected cash inflows generated by these future cash outflows.

- (22) Restructuring is a program planned and controlled by management, and that materially changes the scope of an enterprise's business or the manner in which its business is conducted.

As an enterprise has committed to engage in restructuring, some of the assets may be affected. Once an enterprise has committed to engage in restructuring, to determine the value in use, the estimates of future cash inflows and outflows should reflect the cost savings and related benefits obtained from the restructuring (based on the most recent financial projections and financial budgets approved by the management), and the future cash outflows for the restructuring should also be considered.

- (23) Unless an enterprise has incurred the cash outflows to upgrade an asset's current level of performance, the estimates of future cash flows should not include projected future cash inflows generated by such expenditures.
- (24) The estimates of future cash flows should include the future cash outflows that are necessary to maintain an asset's current level of performance.
- (25) The estimation of future cash flows should adopt consistent assumptions the same way in which the discount rate is determined; otherwise, the effects of some assumptions will be double-counted or neglected. Since discounting future cash flows has considered the time value of money, these cash flows should exclude cash inflows or outflows arising from financing. For similar considerations, since discount rate is determined on pre-tax basis, future cash flows should also be estimated based on pre-tax basis.

- (26) In estimating the receipt (or payment) of the net cash flow for the disposal of an asset when its estimated useful life expires, an enterprise should adopt a similar way in which the net cash flow of an asset's net fair value is estimated. Nevertheless, the following events should be considered:

- (a) On the estimation day, an enterprise uses the regular price for the similar asset of which useful life has expired and exhausting conditions are similar to the asset under review.
- (b) The adjustment for the afore-mentioned price should consider both the effects of the increase or decrease of the future specific price and the effects of the price increase arising from general inflation. However, if the future cash flows and the discount rate arising from the continuing use of the asset exclude the effects of general inflation, such effects should also be excluded in the estimation of the net cash flow for the disposal.

Foreign currency future cash flows

- (27) Future cash flows should be estimated by using relevant foreign currency and be discounted by applying the discount rates suitable for such foreign currency. An enterprise should use the spot exchange rate on the balance sheet date to translate the present value.

Discount rate

- (28) A discount rate is the ratio that reflects the current market assessment for the time value of money and the specific risks of an asset and is also the required rate of return for an investor to select a certain investment. The amount, timing and risk characteristics of the cash flows from such investment are equivalent to those generated by the asset. In estimating the discount rate, one of the following should be used:

- (a) The implicit rate of return for similar assets in current market transactions; or,
- (b) The weighted average cost of capital for other enterprise that own only a single asset with similar service potential and risks to the asset under review.

However, when an enterprise estimates future cash flows, if they are adjusted for the asset's specific risk, such risk should not be reflected in the discount rate used to measure the asset's value in use; otherwise, the effects of some assumptions will be double-counted.

- (29) When the implicit rate of return for similar assets in current market transactions cannot be obtained directly from the market, an enterprise should use alternative methods to estimate the discount rate. To assess the discount rate, the following rates of returns or interest rates should be considered:
- (a) An enterprise's required rate of return for its stockholders' equity (e.g., the Capital Asset Pricing Model can be used);
 - (b) An enterprise's incremental borrowing rate; and
 - (c) Other market borrowing rates.

The afore-mentioned rates should be adjusted to reflect the way in which market assesses the relevant specific risk on the forecasted cash flows, and to exclude the irrelevant risk on the forecasted cash flows.

In adjusting the risk, various related risks such as country risk, exchange risk, market price risk and cash flow risk should be taken into consideration.

Recognition and measurement of impairment loss

- (30) If an asset has not been revalued in accordance with the laws, its

impairment loss should be recognized as a loss in the income statement.

If an asset has been revalued in accordance with the laws, its impairment loss should first be used to reduce the unrealized appreciation of revaluation under the stockholders' equity. The excess loss, if any, may then be recognized as a loss in the income statement.

Cash-generating units and goodwill

Identifying the cash-generating unit to which an asset belongs

- (31) If an individual asset cannot generate cash flows that are largely independent of those from other assets, an enterprise cannot estimate the recoverable amount of the individual asset. In such case, the recoverable amount of the individual asset can only be estimated through the cash-generating unit to which the asset belongs.
- (32) In identifying whether or not the cash flows of an asset are largely independent of those from other assets, an enterprise should consider various factors including how management monitors enterprise's operations (by product lines, lines of business, individual locations or any other methods), or how management makes decisions about continuing or disposing of the enterprise's assets and operations. The identification of the cash-generating unit to which the asset belongs should follow the afore-mentioned methods for further determination.
- (33) Even if the output of an asset is partially or entirely consumed by other units of an enterprise (such as the intermediate-stage products in a manufacturing process), and if the enterprise can sell the output in an active market, then this asset is regarded as an independent cash-generating unit. This is because the asset can generate cash flows largely independent of those from other assets. In using the information based on the financial projections or financial budgets that relates to such a cash-generating unit, an enterprise adjusts this

information if internal transfer prices do not reflect management's best estimate of the future market prices for the cash-generating unit's output.

Recoverable amount and carrying amount of a cash-generating unit

- (34) To determine the recoverable amount of a cash-generating unit, the related cash flows from the assets that do not belong to the cash-generating unit and the recognized liabilities are usually excluded. Thus, the carrying amount of the cash-generating unit usually:
- (a) Includes the assets that can be directly attributed to or be allocated on a reasonable and consistent basis to the cash-generating unit. Such assets will generate the future cash flows that will determine the value in use of the cash-generating unit, and
 - (b) Excludes the carrying amount of any recognized liability, except for the conditions as stated in Paragraph 35.
- (35) To determine the recoverable amount of a cash-generating unit, sometimes it may be necessary to consider certain recognized liabilities. For example, it may happen when a cash-generating unit is disposed of and the buyer is asked to take over a liability. In such case, the net fair value (or the estimated cash flows from the ultimate disposal) is the aggregate estimated selling price less disposal costs for the assets of the cash-generating unit assets and the liabilities. To compare the carrying amount of the cash-generating unit with its recoverable amount, the carrying amount of the liability is deducted in determining both the value in use and the carrying amount of the cash-generating unit.
- (36) When assets are grouped to evaluate their recoverability, a cash-generating unit should encompass all the assets that generate relevant cash flows. Otherwise, the cash-generating unit may be mistaken as fully recoverable, when in fact, an impairment loss has

occurred. In certain cases, some assets such as goodwill and corporate assets are helpful in estimating future cash flows of a cash-generating unit, but they cannot be allocated on a reasonable and consistent basis to the cash-generating unit.

Goodwill

Allocating goodwill to cash-generating units

- (37) Goodwill, obtained from business merger, represents a buyer's payment for the future economic benefits that cannot be individually identified and are recognized as an asset. Goodwill cannot generate cash flows independently without other assets or asset groups.
- (38) Goodwill obtained from business merger can usually contribute to the cash flows of multiple cash-generating units. However, for an enterprise in testing a cash-generating unit for impairment, only when the goodwill can be allocated on a reasonable and consistent basis, can the cash-generating unit include the carrying amount of the goodwill. Moreover, only when a cash-generating unit is the lowest level for which the management monitors the investment returns of the assets including the goodwill, can it be regarded as allocable on a reasonable and consistent basis to the cash-generating unit. Hence, the smallest cash-generating unit group that goodwill can be allocated on a reasonable and consistent basis usually includes several cash-generating units that are related to the goodwill but cannot be allocated on a reasonable and consistent basis (hereafter referred to sub-cash-generating units).

Timing for impairment test

- (39) If the cash-generating unit to which goodwill is allocated (hereafter referred to cash-generating unit with allocated goodwill) performs impairment test and if there are indications that some of the sub-cash-generating units may have been impaired, an enterprise should first perform impairment test for these sub-cash-generating units and recognize impairment losses for these sub-cash-generating

units.

Corporate assets

- (40) Corporate assets include divisional or group assets, such as the building of corporate headquarters or division of the enterprise, electronics data processing equipment or research center. It can be determined by an enterprise's organization structure whether an asset meets the definition of corporate asset related to certain cash-generating unit in accordance with this Statement. The key characteristics of corporate asset are that it cannot generate cash flows independently from other assets or other groups of assets and that the carrying amount of the corporate asset cannot be entirely attributed to the cash-generating unit under review.
- (41) Since a corporate asset cannot generate cash inflows independently, its recoverable amount cannot be determined unless the management decides to dispose of the asset. Thus, if there is indication that an individual corporate asset may be impaired, for an enterprise to perform impairment test, its recoverable amount should be identified with the cash-generating unit to which the carrying amount of the corporate asset can be allocated. The recoverable amount should be compared with the carrying amount of the cash-generating unit, including the allocation of the corporate asset, and impaired loss should be recognized in accordance with Paragraph 86.

Impairment loss for a cash-generating unit

- (42) If it is difficult to estimate the recoverable amount for an individual asset within a cash-generating unit, the impairment loss should be allocated to all the assets within the unit, except for the goodwill, because all the assets operate jointly.
- (43) If an individual asset meets the conditions specified in Paragraph 31 and its recoverable amount cannot be determined, an enterprise should be in accordance with the following:

- (a) If the related cash-generating unit is not impaired and even if the net fair value of the individual asset is lower than its carrying amount, impairment loss should not be recognized for the individual asset; or,
- (b) If the related cash-generating unit is impaired, impairment loss should be recognized by the amount over which the carrying amount of the individual asset larger than the allocated amount in accordance with Paragraph 86 and Paragraph 87.

Reversing an impairment loss

- (44) In assessing whether there is any evidence that an impairment loss recognized for an asset (with the exception of goodwill) in prior years may no longer exist or may have decreased as of balance sheet date, an enterprise should consider, at a minimum, the following evidences:
- (a) External information
- (i) The market value for an asset has increased significantly during the period;
- (ii) Significant changes in the technology, market, economic or legal environment in which the enterprise operates have occurred during the period or will take place in the near future, with a favorable effect on the enterprise; and,
- (iii) Market interest rate or other market rates of return on investments have decreased during the period resulting in significant impact on the discount rate used to compute the value in use of an asset and, accordingly, the recoverable amount of the asset has significantly increased.

- (b) Internal information
- (i) Significant changes with a favorable impact on the enterprise have occurred or will take place in the near future, in the extent to which, or manner in which, the asset is used or is expected to be used; and
 - (ii) Internal report shows that the economic performance of an asset will be better than what had been previously expected.
- (45) Reversing an impairment loss is to reflect an asset's (except for goodwill) estimated increase in future service potential since the date of its last recognition of impairment loss. An enterprise should determine the changes in estimates that cause the service potential to increase. The so-called changes in estimates are illustrated as follows:
- (a) A change in the basis for the calculation of recoverable amount (i.e., net fair value or value in use);
 - (b) A change in the discount rate or a change in the amount or timing of estimated future cash flows, if the recoverable amount is calculated based on value in use; or,
 - (c) A changes in estimate of the components of net fair value (i.e., selling price or disposal cost), if the recoverable amount is calculated base on net fair value.
- (46) An asset's value in use may become greater than the asset's carrying amount simply because the present value of future cash flows increases as they become closer. However, the service potential of the asset has not increased. Therefore, an impairment loss is not reversed just because of the passage of time (sometimes called the unwinding of the discount), even though the recoverable amount of the asset becomes higher than its carrying amount.

Reversing an impairment loss for an individual asset

- (47) If an asset (except for goodwill) has not been revalued in accordance with the laws, its reversal of impairment loss should be recognized as a profit in the income statement.

If an asset has been revalued in accordance with the laws, then reversal of its impairment loss should be credited directly to revaluation surplus for unrealized appreciation under stockholders' equity, to the extent of the prior impairment losses recognized. However, if such prior impairment loss for the same revalued asset had been recognized as a loss in the income statement because of insufficient revaluation surplus, then the reversal of such impairment loss should first be recognized as income to the extent of the previous impairment loss recognized.

Reversing an impairment loss for goodwill

- (48) In accordance with the rules in the Statements of Financial Accounting Standards, internally generated goodwill should not be recognized by an enterprise. After recognition of the impairment loss for goodwill, any subsequent increase in its recoverable amount may be caused by an increase in internally generated goodwill, and not by the reversal of the impairment loss for goodwill, and thus, should not be recognized.

IV Accounting Standards

Identifying an asset that may be impaired

- (49) An enterprise should evaluate whether or not there are indications that an asset may be impaired on the balance sheet date. If there are indications, the enterprise should estimate the recoverable amount for the asset.
- (50) Regardless of whether there are indications for the following assets to

be impaired, an enterprise should perform impairment test:

- (a) compare the carrying amounts of intangible assets with an indefinite life and intangible assets that are not yet available for use with their recoverable amounts. Impairment test should be performed every year. An enterprise may conduct impairment test anytime during the year but it should conduct impairment test at the same time every year. Different intangible assets may conduct impairment tests at different times. However, if the intangible asset is recognized during the year, impairment test should be conducted by the end of that year.
- (b) goodwill should follow the rules specified in paragraph 37 through paragraph 39, and paragraph 76 through 84 to perform impairment test for the goodwill annually.

Measuring the recoverable amount of an asset

- (51) The recoverable amount should be determined for an individual asset. But if an individual asset cannot generate the cash flows that are largely independent of those cash flows from other assets or asset groups, its recoverable amount should be determined through the cash-generating unit to which the asset belongs.

Net fair value

- (52) The best evidence for an asset's net fair value is the selling price in a binding sale contract in an arm's length transaction, after the deduction of disposal costs.
- (53) If there is no binding sale contract but there is active market for an asset, the asset's net fair value is the market price after the deduction of disposal costs.
- (54) If there is neither binding sale contract nor active market for an asset, the asset's net fair value is estimated according to the best

information available on the balance sheet date, which reflects the obtainable amount from the sale in an arm's length transaction between two willing and knowledgeable parties, after the deduction of any disposal costs. To estimate this amount, an enterprise should consider the results of recent transactions for similar assets in the industry.

- (55) When an enterprise disposes an asset, if the buyer is asked to take over the liability and the net fair value is determined by taking into consideration both the asset and the liability, it should subtract the carrying amount of the liability from that of the asset to examine whether or not there is impairment loss.

Value in use

- (56) The following important factors should be reflected in an enterprise's calculation of an asset's value in use:
 - (a) Estimates of expected future cash flows to be generated by the asset;
 - (b) Expectation for possible variations on the amount and timing of the afore-mentioned future cash flows;
 - (c) Time value of money, which can be represented by the current market risk-free rate;
 - (d) Price for bearing the inherent uncertainty of the asset; and
 - (e) Other factors. For example, if the asset is not liquid, then such factors will be reflected by market participants in the valuation of an enterprise's expected future cash flows generated by the asset.

The afore-mentioned factors in (b), (d) and (e), can be reflected by adjusting future cash flows or discount rates. Whatever method is used by the enterprise to reflect the expectation for possible

variations on the amount and timing of the future cash flows, the results should reflect the estimated present value of the future cash flows; that is, the weighted average of all possible outcomes.

Basis for estimates of future cash flows

(57) Measuring value in use should be in accordance with the following:

- (a) Cash flow projections should be based on reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset. In making the above-mentioned assumptions, external evidences should be given greater emphasis.
- (b) Cash flow projections should be based on the most recent financial projections or financial budgets approved by management. Projections based on this approach should cover a maximum period of five years, unless there are sufficient and appropriate evidences to indicate a longer period.
- (c) Cash flow projections beyond the period covered by the most recent projections and budgets should be estimated by extrapolating the projections based thereon using a steady or declining growth rate for subsequent years, unless there are sufficient and appropriate evidence to indicate an increasing rate. The afore-mentioned growth rates should not surpass the long-term average growth rates for the products, industries, or countries in which the enterprise operates (or for the market in which the asset is used), unless there are sufficient and appropriate evidences to indicate higher growth rates.

Compositions of estimates of future cash flows

(58) Estimates of future cash flows should include the following items:

- (a) Cash inflows during the useful life: the cash flows generated from continuing use of the asset;
 - (b) Cash outflows during the useful life: the cash outflows that are necessarily incurred to generate cash inflows from an asset's continuing use (including the cash outflows to prepare the asset for its intended use), and that can be directly attributed or allocated on a reasonable and consistent basis, to the asset; and,
 - (c) Net cash flows from disposal of the asset: the receipt (or payment) for the disposal of the asset when its useful life expires.
- (59) In estimating the receipt (or payment) of the net cash flow for the disposal of an asset when its estimated useful life expires, an enterprise should use the expected obtainable amount from the sale in an arm's length transaction between two willing and knowledgeable parties, after the deduction of any disposal costs.
- (60) To avoid double-counting, estimates of future cash flows should not include the following items:
- (a) The cash inflows generated by the assets other than the asset under review: the cash flows generated by these assets are largely independent of the cash flows generated by the asset under review, for example, the cash inflows arising from financial assets such as receivables, etc.; and,
 - (b) The cash outflows of recognized liabilities, such as the cash outflows arising from payables, pension, or reserves.
- (61) Estimation of future cash flows should be based on an asset's current conditions. Estimates of future cash flows should not include estimated future cash inflows or outflows arising from the following events:

- (a) An enterprise's uncommitted future restructuring; or
 - (b) Improvement or enhancement to upgrade an asset's current level of performance.
- (62) Estimation of future cash flows should not include the following items:
- (a) Cash inflows or outflows arising from financing; or,
 - (b) Cash inflows or outflows arising from income taxes.

Estimated future cash flows should reflect assumptions that are consistent with the way the discount rate is determined.

Discount rate

- (63) The discount rate should be determined on the pre-tax basis by an enterprise to evaluate impairment. If the after-tax basis is used, the basis should be adjusted to reflect pre-tax rate.
- (64) A discount rate is the pre-tax rate for which reflects the market's current assessment for the following events:
- (a) The time value of money; and
 - (b) The specific risks of an asset that have not yet been used to adjust the estimates of future cash flows.
- (65) An enterprise usually uses single discount rate to estimate the value in use of an asset. However, an enterprise may use separate discount rates for different future periods when value in use is sensitive to a difference in risks for different periods or to the term structure of interest rates.

Recognition and measurement of impairment loss

- (66) If an asset's recoverable amount is lower than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount, and the reduction should be recognized as impairment loss. If an asset's recoverable amount is not lower than its carrying amount, the carrying amount should not be reduced.
- (67) If an asset has not been revalued in accordance with the laws, its impairment loss should be recognized as a loss in the income statement.

If an asset has been revalued in accordance with the laws, its impairment loss should first be used to reduce the unrealized appreciation of revaluation under the stockholders' equity. The excess loss, if any, may then be recognized as a loss in the income statement.

- (68) If the estimated amount of an asset's impairment loss is greater than its carrying amount, an enterprise should not recognize a liability. However, an enterprise should follow other Statements of Financial Accounting Standards (including Interpretations) should there be alternative treatments required.
- (69) After an enterprise recognizes an asset's impairment loss, the adjusted carrying amount of the asset less its residual value should be used to compute the depreciation (amortization) expense, by applying a reasonable and systematic method over the remaining useful life.
- (70) If an enterprise recognizes impairment loss, the related deferred tax assets or liabilities should be accounted for in accordance with the rules stated in the Statement of Financial Accounting Standards No. 22, *Accounting for Income Taxes*.
- (71) If there were indications that an asset might be impaired, after an enterprise has estimated its recoverable amount and no impairment loss is recognized for the asset, the enterprise should still review and adjust the asset's remaining useful life, depreciation (amortization)

method or residual value.

Cash-generating units and goodwill

Identifying the cash-generating unit to which an asset belongs

- (72) If there is any indication that an individual asset may be impaired, an enterprise should estimate its recoverable amount. If the recoverable amount of the asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs should be estimated.
- (73) If there is an active market for the output (goods or service) of an asset or asset group, and even if the output is partially or entirely used internally, this asset or asset group should still be regarded as a cash-generating unit. If the cash flows generated by individual asset or cash-generating unit are affected by internal transfer pricing, the enterprise should adopt the management's best estimates of the future market prices for the output in arm's length transactions to estimate the future cash inflows for the determination of the value in use of the individual asset or the cash-generating unit. The afore-mentioned best estimates of the future market prices should also be adopted to estimate the future cash outflows for the determination of the value in use of the individual asset or the cash-generating unit affected by the internal transfer pricing.
- (74) Cash-generating units should be identified consistently from period to period for the same asset or types of asset, unless a change is justified.

Recoverable amount and carrying amount of a cash-generating unit

- (75) The carrying amount of a cash-generating unit, whether to include or exclude assets and liabilities, should be determined consistently with the way the recoverable amount of the cash-generating unit is determined.

Goodwill

Allocating goodwill to cash-generating units

- (76) To conduct impairment test, an enterprise should allocate the goodwill obtained from a business merger to a cash-generating unit, starting from the date of the merger. The cash-generating unit is the smallest cash-generating unit group to which goodwill can be allocated on a reasonable and consistent basis. Only when a cash-generating unit is the smallest cash-generating unit for which the management monitors the investment returns of the assets including the goodwill, can it be regarded as allocable on a reasonable and consistent basis to the cash-generating unit. However, the cash-generating unit should not be greater than a segment as defined in the Statement of Financial Accounting Standards No. 20, *Disclosure of Segment Financial Information*.
- (77) If the goodwill obtained from a business merger cannot be allocated to related cash-generating units by the end of the year for the business merger, its allocation should be completed in the next accounting period following the business merger.
- (78) If an enterprise disposes of partial operation within a cash-generating unit with allocated goodwill, the disposal gain or loss should be calculated base on the carrying amount of the partial operation with allocated goodwill. The enterprise should allocate the carrying amount according to the relative value of the selling price for the partial operation and the recoverable amount of the non-disposed operation within the cash-generating unit, unless there is a better allocation method by which goodwill related to the disposed partial operation can be reflected.
- (79) If an enterprise reorganizes its cash-generating units with allocated goodwill, it should follow the rules stated in the preceding paragraph to reallocate the goodwill to related cash-generating units.

Impairment test for cash-generating unit with allocated goodwill

- (80) If goodwill is related to a cash-generating unit but cannot be allocated to the unit on a reasonable and consistent basis, and if there are indications that the unit may be impaired, the carrying amount of the unit without goodwill should be compared with its recoverable amount in order to conduct impairment test for the unit. Any impairment loss should be recognized in accordance with the rules stated in Paragraph 86.
- (81) Besides that there are indications that a cash-generating unit with allocated goodwill may be impaired, impairment test should be conducted annually by comparing the unit's carrying amount (including goodwill) and its recoverable amount. If the carrying amount exceeds its recoverable amount, an enterprise should recognize impairment loss in accordance with the rules stated in Paragraph 86.

Timing for impairment test

- (82) A cash-generating unit with allocated goodwill should conduct impairment test at the same time every year. Different cash-generating units may conduct impairment test at different times but the same cash-generating unit should conduct impairment test at the same time every year. However, if the goodwill allocated to a cash-generating unit arises from a business merger during the current year, the cash-generating unit should conduct impairment test at the end of the current year.
- (83) When cash-generating unit with allocated goodwill arises from other assets or sub-cash-generating units that are related to the goodwill but to which goodwill cannot be allocated on a reasonable and consistent basis, and if impairment tests are conducted at the same time, then the impairment tests should be performed on other assets or sub-cash-generating units first, before the cash-generating unit with allocated goodwill.
- (84) If the detailed recoverable amount of a cash-generating unit with allocated goodwill had been calculated in the preceding reporting

period, and if it meets all of the following conditions, it can use the same recoverable amount to conduct impairment test for the current period:

- (a) There are no significant changes in the assets and liabilities comprising the cash-generating unit subsequent to the calculation of its recoverable amount;
- (b) The recoverable amount is significantly larger than the carrying amount of the cash-generating unit; and
- (c) It is very unlikely that the recoverable amount of the cash-generating unit is less than its carrying amount, based on the analysis of the events and changes occurred after the recoverable amount was calculated.

Intangible assets with an indefinite life or intangible assets that are not yet available for use

- (84-1) If a cash-generating unit includes intangible assets with an indefinite life or intangible assets that are not yet available for use and if these intangible assets can only be included in a cash-generating unit to perform the impairment test, the cash-generating unit should follow the rules specified in paragraph 50 to conduct the impairment test annually.
- (84-2) If the detailed recoverable amount of an intangible asset with an indefinite life had been calculated in the preceding reporting period, and if it meets all of the following conditions, it can use the same recoverable amount to conduct impairment test for the current period:
- (a) If the intangible asset cannot generate cash flows that are largely independent of those from other assets or asset groups, an enterprise should conduct impairment test for the cash-generating unit to which the intangible asset belongs. And, there are no significant changes in the assets and liabilities comprising the cash-generating unit subsequent to

the calculation of its recoverable amount.

- (b) The recoverable amount is significantly larger than the carrying amount of the cash-generating unit.
- (c) It is very unlikely that the recoverable amount of the cash-generating unit is less than its carrying amount, based on the analysis of the events and changes occurred after the recoverable amount was calculated.

Corporate assets

- (85) In testing a cash-generating unit for impairment, an enterprise should identify all the corporate assets that are related to the cash-generating unit, and it should be in accordance with the following conditions:
- (a) If the carrying amount of the corporate asset can be allocated on a reasonable and consistent basis, an enterprise should compare the carrying amount of the cash-generating unit with allocated corporate asset with its recoverable amount and recognize impairment loss in accordance with Paragraph 86.
 - (b) If the carrying amount of the corporate asset cannot be allocated on a reasonable and consistent basis, an enterprise should recognize impairment loss by applying the following procedures:
 - (i) After excluding the corporate assets, compare the carrying amount of the cash-generating unit with its recoverable amount, and recognize any impairment loss in accordance with Paragraph 86.
 - (ii) Enlarge, identify and include the cash-generating unit under review until the smallest group of cash-generating unit of the carrying amount of the corporate assets can be allocated on a reasonable and

consistent basis.

- (iii) Compare the carrying amount of the cash-generating unit with the allocated corporate assets with its recoverable amount, and recognize impairment loss in accordance with Paragraph 86.

Impairment loss for a cash-generating unit

- (86) If the recoverable amount of a cash-generating unit (the smallest group of cash-generating units with allocated goodwill or corporate assets) is smaller than its carrying amount, impairment loss should be immediately recognized for the cash-generating unit. The impairment loss should be allocated to reduce the carrying amount of the assets within the cash-generating unit in the following order:
- (a) First, reduce the carrying amount of the goodwill allocated to the cash-generating unit; and,
 - (b) Then, any remaining impairment loss should be allocated on a pro-rata basis based on the carrying amount of each asset (including the allocated corporate assets) within the cash-generating unit.

The afore-mentioned reduction in carrying amounts should be treated as impairment losses on individual assets and recognized in accordance with Paragraph 67.

- (87) In allocating an impairment loss in accordance with Paragraph 86, the carrying amount of an asset should not be reduced below the highest of the following amounts:
- (a) Its net fair value (if determinable);
 - (b) Its value in use (if determinable); or
 - (c) Zero.

The impairment loss not yet allocated to the asset due to the afore-mentioned limitation should then be allocated on a pro-rata basis to the other assets within the cash-generating unit.

- (88) After Paragraph 87 and 88 are applied, any remaining impairment loss of the cash-generating unit should not be recognized as a liability, unless the rules stated in other Statements of Financial Accounting Standards (including Interpretations) have required otherwise.

Reversing an impairment loss

- (89) An enterprise should assess at each balance sheet date whether there is evidence that indicates that the impairment loss of an asset recognized in prior years may no longer exist or may have decreased. If such evidence exists, the recoverable amount of the asset should then be calculated.
- (90) The accumulated impairment loss of an asset (other than goodwill) recognized in prior years should be reversed if, subsequently, there has been a change in the estimates used to determine the asset's recoverable amount so as to increase the recoverable amount. Then, the asset's carrying amount should be increased to its recoverable amount but should not exceed the carrying amount as stated in Paragraph 92.
- (91) If there is evidence indicating that the recognized impairment loss of an asset (other than goodwill) may have decreased, after an enterprise has estimated its recoverable amount and no reversal of impairment loss is made for the asset, the enterprise should still review and adjust the asset's remaining useful life, depreciation (amortization) method or residual value.

Reversing an impairment loss for an individual asset

- (92) The carrying amount of an asset (other than goodwill) after the

reversal of impairment loss should not exceed the carrying amount of the asset that would have been determined net of depreciation or amortization had no impairment loss been recognized for the asset in prior years.

- (93) If an asset (other than goodwill) has not been revalued in accordance with the laws, its reversal of the impairment loss should be recognized as a profit in the income statement.

If an asset has been revalued in accordance with the laws, its reversal of the impairment loss should be used to reduce the unrealized appreciation of revaluation, only to the extent of the unrealized appreciation of revaluation previously recognized under the stockholders' equity. However, to the extent that an impairment loss on the same revalued asset was previously recognized as a loss in the income statement due to insufficient revaluation surplus, a reversal of that impairment loss is recognized as a gain in the income statement.

- (94) After an enterprise reverses an asset's impairment loss, the adjusted carrying amount of the asset less its residual value should be used to compute the depreciation (amortization) expense, by applying a reasonable and systematic method over the remaining useful life.

Reversing an impairment loss for a cash-generating unit

- (95) A reversal of an impairment loss for a cash-generating unit should be allocated on a pro-rata basis based on the carrying amount of individual assets (other than goodwill) within the cash-generating unit.

The afore-mentioned increase in carrying amounts should be treated as a reversal of impairment loss for individual assets and be recognized in accordance with Paragraph 93.

- (96) In allocating a reversal of an impairment loss for a cash-generating

unit in accordance with the preceding Paragraph, the carrying amount of an asset should not be increased above the lower of the following two amounts:

- (a) The recoverable amount of individual asset (if determinable); or
- (b) The carrying amount of individual asset if no impairment loss had been recognized, after the deduction of depreciation or amortization.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset should be allocated to the other assets of the unit on a pro-rata basis (except for goodwill).

Reversing an impairment loss for goodwill

- (97) Recognized impairment loss for goodwill should not be reversed.

V Disclosure

(98) An enterprise should disclose in its financial statements the following events for each class of assets (referred to asset groups with similar nature and usage in the enterprise's operation):

- (a) The amount of impairment loss recognized in the income statement during the period and the line items in which such impairment loss is included;
- (b) The reversal amount of impairment loss recognized in the income statement during the period and the line items in which such impairment loss is included;
- (c) The amount of impairment loss directly recognized in equity during the period; and
- (d) The reversal amount of impairment loss directly recognized in

equity during the period.

(99) As an enterprise applies the Statement of Financial Accounting Standards No. 20, *Disclosure of Segment Financial Information*, it should disclose the following events for each segment:

- (a) The amount of impairment loss recognized in the income statement and directly in equity during the period; and
- (b) The reversal amount of impairment loss recognized in the income statement and directly in equity during the period.

(100) If the impairment loss of an individual asset or a cash-generating unit is recognized or reversed during the period, and it is material to the overall financial statements, an enterprise should disclose the following events:

- (a) The events and conditions that led to the recognition or reversal of impairment loss;
- (b) The amount of the impairment loss recognized or reversed;
- (c) For individual asset:
 - (i) The nature of the asset; and
 - (ii) The segment to which the asset belongs (if the enterprise applies Statement of Financial Accounting Standards No. 20, *Disclosure of Segment Financial Information*);
- (d) For cash-generating unit:
 - (i) A description of the cash-generating unit (such as whether it is a product line, plant, industry, geographical area or segment);

- (ii) The amount of the impairment loss recognized or reversed by asset type or by segment; and
 - (iii) If the aggregation of assets for identifying the cash-generating unit has changed since the previous estimate of the cash-generating unit's recoverable amount, the enterprise should describe the current and former way of the aggregating assets and the reasons for changing the way the cash-generating unit is identified.
- (e) Whether the recoverable amount of individual asset or cash-generating units is determined by either net fair value or value in use.
 - (f) If the recoverable amount is the net fair value, the basis used to determine the net fair value (such as whether the fair value is determined by reference to an indicator in an active market).
 - (g) If the recoverable amount is the value in use, the discount rates used to calculate the previous and current values in use.
- (101) If the impairment loss or its reversal is not material and, accordingly, is not disclosed in accordance with the preceding Paragraph, an enterprise should disclose the following information related to the total impairment losses or the total reversals of the impairment losses recognized during the period:
- (a) The major asset types affected by the impairment losses and the reversals; and,
 - (b) The major events and circumstances that led to the recognition and reversal of these impairment losses.
- (102) This Statement encourages an enterprise to disclose the key assumptions used to estimate the current recoverable amount of

individual asset or cash-generating unit. Nevertheless, the enterprise should disclose the information related to a cash-generating unit with allocated goodwill and a cash-generating unit with intangible asset with an indefinite life in accordance with paragraph 104.

- (103) If an enterprise has obtained goodwill from business merger during the period, and some of the goodwill is not allocated to cash-generating units, it should disclose the unallocated amount of the goodwill and explain why there was no allocation.

Estimates to measure the recoverable amount of a cash-generating unit with allocated goodwill

- (104) When the allocated goodwill to a cash-generating unit or the intangible asset with an indefinite life is material to the overall carrying amount of the goodwill or the intangible asset with an indefinite life, an enterprise should disclose the following information related to the cash-generating unit:
- (a) The carrying amount of the goodwill allocated to the cash-generating unit;
 - (b) The carrying amount of the intangible asset allocated to the cash-generating unit;
 - (c) If the recoverable amount of the cash-generating unit is determined by the value in use, the following information should be disclosed:
 - (i) Description for each key assumption. The so-called key assumptions refer to those that are most sensitive to the recoverable amount of the cash-generating unit and are proposed by management based upon estimated cash flows in the most recent financial projections or financial budgets;
 - (ii) Description on how the value of each key assumption

- is determined by the management. The description should include whether or not the afore-mentioned value reflects past experiences or is consistent with external information. If it does not reflect past experiences or is not consistent with external information, the differences and their reasons should be disclosed;
- (iii) The cash flow period approved by management based on the approved financial projections or financial budgets. If the period exceeds five years, the reasons why a longer period is adopted should be stated;
 - (iv) The extrapolated growth rate to estimate the future cash flows for the years beyond the most recent period of financial projections or financial budgets. As the growth rate surpasses the historical long-term average growth rate for the products, industries, or countries (or markets in which the asset is used) in which the enterprise operates, the reasons should be disclosed; and,
 - (v) The discount rate used to estimate cash flows.
- (d) If the recoverable amount of the cash-generating unit is determined by the net fair value, the method in which the net fair value is determined should be disclosed. If the net fair value is not determinable by market price observation, an enterprise should disclose the following information:
- (i) Description for each key assumption that is used by management to determine the net fair value. The key assumptions refer to those that are most sensitive to the recoverable amount of the cash-generating unit; and,
 - (ii) Description on how the value of each key assumption

- is determined by the management. The description should include whether or not the afore-mentioned value reflects past experiences or is consistent with external information. If it does not reflect past experiences or is not consistent with external information, the differences and their reasons should be disclosed.
- (e) If reasonably possible changes in the key assumptions that are used by the management to determine the recoverable amount of the cash-generating unit will cause the carrying amount of the cash-generating unit to exceed its recoverable amount, the following items should be disclosed:
 - (i) Amount by which the carrying amount of the cash-generating unit exceeds its recoverable amount;
 - (ii) Value of the key assumptions; and,
 - (iii) Changes in the value of the key assumptions in order for the recoverable amount of the cash-generating unit to equal to its carrying amount, after jointly considering the effects of the consequential changes in other variables that are used to determine the recoverable amount.
- (105) If the carrying amount of goodwill or intangible asset with an indefinite life is allocated to several cash-generating units, and the amount allocated to each cash-generating unit is not material relative to the overall carrying amount of the goodwill or intangible asset with an indefinite life, an enterprise should disclose this fact and the carrying amount of the goodwill. However, if the recoverable amounts of certain cash-generating units are determined by the same key assumptions, and the total carrying amount of the goodwill or intangible asset with an indefinite life allocated to these cash-generating units is material relative to the overall carrying amount of the goodwill or intangible asset with an indefinite life, an enterprise should disclose this fact and the following items:

- (a) The total carrying amount of the goodwill allocated to these cash-generating units;
- (b) The total carrying amount of the intangible assets with an indefinite life allocated to these cash-generating units;
- (c) Description on how the value of each key assumption is determined by the management. The description should include whether or not the afore-mentioned value reflects past experiences or is consistent with external information. If it does not reflect past experiences or is not consistent with external information, the differences and their reasons should be disclosed; and,
- (d) If the reasonably possible changes in the key assumptions that are used by the management to determine the recoverable amount of the cash-generating unit will cause the carrying amount of the cash-generating unit to exceed its recoverable amount, the following items should be disclosed:
 - (i) Amount by which the carrying amount of the cash-generating unit exceeds its recoverable amount;
 - (ii) Value of the key assumptions; and,
 - (iii) Changes in value of the key assumptions in order for the recoverable amount of the cash-generating unit to equal to its carrying amount, after considering the effects of the consequential changes in other variables that are used to determine the recoverable amount.

VI Notes

- (106) The asset impairment loss that was prior to this Statement's effective date and did not follow the principles stated in this Statement should not be restated retroactively.

- (107) This Statement was issued on July 1, 2004. The first revision of this Statement was on July 20, 2006. The second revision was on November 30, 2006.

The provisions of the second revision shall be effective for financial statements for the fiscal year beginning and on January 1, 2007. Earlier adoption is permitted. Those financial statements that had followed the previous provisions of the Statement should not be restated retroactively in applying the provisions of the second revision.

The provisions of this Statement need not be applied to immaterial items.