APPROVED
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23 BUSINESS ACCOUNTING STANDARD “IMPAIRMENT OF ASSETS”

(“Valstybės žinios” (Official Gazette), 2004, No. 180-6695; 2006, No. 37-1329; 2007, No. 1-60).

I. GENERAL PROVISIONS

1. The objective of this Standard is to set out how impairment of non-current assets shall be measured, recorded in accounting and presented in financial statements.

2. This Standard shall be applied in determining indications that an asset may be impaired and in presenting assets in financial statements at values not exceeding their recoverable amounts.

3. This Standard shall be applied in accounting for material impairment of non-current assets (a unit of assets or assets grouped in cash-generating units), except for:

3.1. deferred tax assets;

3.2. financial assets accounted for in accordance with 18 Business Accounting Standard "Financial Assets and Financial Liabilities”;

3.3. biological assets used in agricultural activities.

II. KEY DEFINITIONS

Active market – a market in which the items traded are homogeneous, willing buyers and sellers can normally be found at any time and prices are available to the public.

Recoverable amount – the higher of an asset’s expected net selling price and its value in use.

Value in use – the present value of net future cash flows expected to be derived from using an asset and its disposal at the end of its useful life.

Net future cash flows – the difference in expected inflows and outflows.

Discounting – finding the present value of an amount of cash at some future date.

Discounted cash flows – future cash flows estimated as at the specific date in the current reporting period using a discount rate.

Discount rate – the rate of return on investment that reflects the time value of money and the current level of risk specific to the asset.

Net selling price - the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Costs of disposal – costs directly attributable to the sale or other disposal of an asset.

Impairment (loss due to decrease in value) – the amount by which the carrying amount of an asset exceeds its recoverable amount.

Carrying amount – the amount at which an asset is presented in the balance sheet.

Depreciation (amortisation) – a systematic allocation of the depreciable amount of an asset of a finite useful life to expenses over its expected useful life taking in consideration the actual changes in the economic value of such asset.

Useful life – the period of time over which an entity expects to use an asset of a finite useful life or the number of production or similar units expected to be produced (obtained) from the asset by the entity.

Cash-generating unit – the smallest identifiable unit of assets or a group of assets that by continuously using the assets generates cash inflows that are largely independent of inflows from another unit of assets or a group of assets.

III. ACCOUNTING FOR ASSETS THAT MAY BE IMPAIRED AND INDICATIONS OF IMPAIRMENT

4. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired. If the difference is material, the carrying amount of the asset shall be reduced to its recoverable amount.

5. When preparing financial statements, an entity shall asset whether there is any indication of impairment of assets suggesting that the impairment of assets may be material. If any such indication exists, the entity shall estimate the recoverable amount and compare it to the carrying amount of the asset.

6. In determining whether an asset has impaired, an entity shall consider internal and external indications:

6.1. examples of external indications of impairment of assets are as follows:

6.1.1. during the reporting period an asset's market price has declined significantly and this is not a short-term decline;

6.1.2. changes in the technological, economic or legal environment, in which the entity operates or in the market to which such asset is dedicated, have taken place during the reporting period and affected significantly the value of assets, or there is a reasonable expectation that such changes will take place in the future;

6.1.3. market interest rates or other rates of return on investments have increased during the reporting period, and those increases are likely to influence the discount rate used in estimating an asset's value in use and therefore will decrease the asset's recoverable amount materially.

6.2. examples of internal indications of impairment of assets are as follows:

6.2.1. an entity has stopped using in its activities some assets that are not yet fully depreciated (amortised);

6.2.2. an entity has construction in progress that is not expected to be completed or its completion would not be economically beneficial;

6.2.3. assets of the entity are much damaged due to natural disasters or other factors;

6.2.4. income from the rent of an asset do not cover depreciation (amortisation) and other maintenance expenses of this asset;

6.2.5. goodwill was recognised upon investment into another entity, but thereafter the later entity has not been as profitable as it was expected at the time of acquisition. In this case, the value of goodwill has decreased;

6.2.6. significant changes with an adverse effect on the entity have taken place during the reporting period, or are expected to take place in the near future, in the manner in which, or extent to which, an asset is used. The examples of such changes might be reorganisation or discontinuation of the entity's activities, disposal of assets before the previously expected date, replacement of assets due to renewal of technologies;

6.2.7. evidence is available indicating that the economic benefit from an asset is, or will be, worse than expected.

7. An entity may also identify indications of impairment other than those mentioned in paragraph 6 of this Standard.

8. If market interest rates or other rates of return on investment have increased during the period (paragraph 6.1.3.), the entity is not required to estimate the asset's recoverable amount in the following cases:

8.1. if the discount rate applicable for estimation of the asset's value in use is not, or is unlikely to be, affected by the increase in these market rates (e.g., the increase in short-term interest rates may not have a material effect on the discount rate used for an asset that has a relatively long remaining useful life);

8.2. if it is likely that the discount rate applied for estimation of the asset's value in use will be affected by the increase in these market rates but net future cash flows are likely increase simultaneously, thus the recoverable amount will not decrease materially.

9. Indications of decreasing economic benefits (paragraph 6.2.7.) from an asset could be as follows:

9.1. exploitation and maintenance of an asset is more costly than it was expected;

9.2. actual cash flows from an asset or profit earned from it are significantly lower than those expected.

10. In determining whether to estimate the recoverable amount of an asset, the materiality of the impairment loss is taken into account. For example, if a previously estimated recoverable amount of an asset exceeded its carrying value significantly, the entity is not required to re-estimate the asset’s recoverable amount if no events have occurred that could eliminate the difference between the recoverable amount and the carrying amount.

11. If there are indications that an asset may be impaired but calculations show that the recognition of loss due to decrease in value is not required, this may indicate that the asset’s remaining useful life, depreciation (amortisation) method or residual value needs to be reviewed and adjusted.

IV. RECOVERABLE AMOUNT

12. If there are indications that an asset may be impaired, the asset’s recoverable amount shall be determined. Sometimes a continuously used separate unit of assets does not create inflows that could be reasonably separated from inflows created by other assets. Then the entity shall calculate the recoverable amount of an asset-generating unit (a group of assets), which includes this asset. However, in case of a decrease in value of a single unit of assets (e.g., after a natural disaster that caused a material damage to the asset, or after a decision not to complete a construction project) the recoverable amount is calculated for that separate unit.

13. Cash-generating unit is the smallest unit of assets or a group of assets that using the asset continuously generates cash inflows, normally independent of inflows from other assets or group of assets. For example, if an entity is able to estimate the recoverable amount of a separate piece of equipment, the entity shall not assign it to the whole assembly line and shall hold a separate piece of equipment as the smallest cash-generating unit. If it is impossible to do this, the entity shall calculate the recoverable amount of the whole assembly line to which the piece of equipment belongs to.

14. An entity may select different criteria for allocation of assets into asset-generating units. For example, they may be allocated according to product lines, departments, markets, and so on.

15. When grouping assets, it is important to keep a group of assets as small as possible and include in it all assets generating cash flows directly from their continuous usage. It is also important that asset-generating units include the same assets or the same group of assets in all reporting periods if there were no basis to change the grouping of assets.

16. There may be cases when it is impossible or impractical to divide assets into separate asset-generating units. For examples, five separate shop floors in a factory produce parts for one product that is assembled in the sixth shop floor. Finished goods are realised by the sales department of the factory. It is impractical to divide assets of the factory into separate cash-generating units, since an asset-generating unit is the whole factory.

17. It is not always necessary to determine both the asset’s net realisable value and its value in use. For example, if one of these amounts is greater than the asset’s carrying amount, the value of the asset is considered not impaired and the calculation of another amount is not necessary.

V. NET SELLING PRICE

18. Net selling price may be determined in various ways, for example:

18.1. on the basis of the price set in a sale agreement or in a protocol of intent provided that they are signed;

18.2. if there is no binding sale agreement but homogeneous assets are traded in an active market, net selling price is determined according to the market price. The market price of an asset is the current bid price. When current bid prices are unavailable, net selling price is calculated on the basis of the price of the most recent similar transaction, provided that there has not been a significant change in economic circumstances between the transaction date and the date as at which the asset's recoverable amount is estimated;

18.3. if there is no binding sale agreement or active market for an asset, expected net selling price is based on the most reliable information available to reflect the amount that an entity could obtain from the sale of the asset, at the reporting date. The most reliable information might be the prices of public purchase and sales auctions announced by the entity for similar assets, assessments of similar assets made by professional assessors, and other information. In determining the selling price, the entity shall also consider the recent transactions for similar assets within the same industry. However, net selling price shall not be determined according to the prices of forced sales, unless management of the entity is compelled to sell the asset immediately.

19. Expected costs of disposal, other than those that have already been recognised as liabilities, are deducted in determining net selling price. The examples of costs of disposal are court fees, various transaction taxes, costs of removing the asset, and other costs directly related to the sale. Employment contract termination benefits and costs associated with reducing or reorganising entity's activities following the disposal of an asset are not attributable to the costs of disposal.

20. If reliable information for determining net selling price is not available, recoverable amount of an asset is determined according to its value in use.

VI. VALUE IN USE

21. An asset's value in use is estimated by discounting net future cash flows, expected to be generated from the use of the asset and its disposal at the end of its useful life.

22. Net future cash flows are estimated on the basis of these assumptions:

22.1. cash flows shall be based on reasonable and supportable assumptions that will dominate over the remaining useful life of the asset. When estimating cash flows greater weight shall be given to external sources of information (e.g., macroeconomic analysis, overview of industries, statistical data);

22.2. cash flows shall be based on the most recent financial budgets or forecasts approved by the management. Projections based on these budgets or forecasts shall cover a maximum period of five years, unless a longer period can be sufficiently justified;

22.3. cash flows projections beyond the period covered by the most recent budgets or forecasts shall be estimated by extrapolating the cash flows projections based on the budgets or forecasts and applying reasonable assumptions.

23. Estimates of net future cash flows shall include these cash inflows and outflows:

23.1. expected inflows from the continuing use of the asset;

23.2. expected outflows related to the use of this asset;

23.3. amount of cash to be obtained for the disposal of the asset at the end of its useful life, if it may be reasonably expected.

24. Net future cash flows shall be estimated for the asset in its current condition. Estimates of net future cash flows shall not include inflows or outflows that will arise due to:

24.1. a future restructuring to which the entity is not yet committed;

24.2. future investments or reconstruction that will improve useful qualities of an asset and (or) increase its value. However, repair and maintenance costs, necessary to maintain the asset at the state of its full capacity, are included in estimating net future cash flows.

25. Estimates of net future cash flows shall not include:

25.1. inflows and outflows from financial activities;

25.2. income tax payments or receipts, since the discount rate shall be determined for profit (loss) before tax and net future cash flows shall not include income tax receipts or payments.

26. Value in use is equal to the present value of net future cash flows, which is estimated using the following formula:

$$PV_{NPV} = \frac{PV_1}{(1+r)^1} + \frac{PV_2}{(1+r)^2} + ... + \frac{PV_n}{(1+r)^n}$$, where

PV_{NPV} = present value of discounted net future cash flows;
$PV_1 \ldots PV_n$ = net future cash flows from the 1st to the nth period;
r = discount rate expressed in parts per one;
1…n = periods for which cash flows are included into calculations.

27. Cash flows PV_n of the last period also include the amount of cash expected to be obtained in the future from the disposal of the asset at the end of its useful life.

28. Discount rate shall be calculated considering the current time value of money and the level of risk specific to the asset. Discount rate shall not reflect risks that that have already been considered in estimating net future cash flows (e.g., projection of lower revenues due to a certain element of risk).

29. For determining the discount rate an entity may use, for example:

29.1. a weighted average of value of capital used by the entity;

29.2. the interest rate on entity's long-term loans;

29.3. the discount rate of long-term government bonds adjusted for risk factors specific to the entity and its industry (preferably the chosen discount rate of government bonds would be of the same period as the useful life of the asset being assessed);

29.4. other market interest rates on loans.

VII. RECOGNITION OF AND ACCOUNTING FOR IMPAIRMENT

30. When and only when, the recoverable amount of an asset is materially lower than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. Amount, by which the carrying amount of the asset is reduced, is recognised as an impairment loss.

31. In the income statement an impairment loss shall be recognised as operating expenses, unless the asset is carried at the revaluation amount.

32. If the revaluation method is used for accounting for assets and there is a remaining portion of unused revaluation reserve (results), revaluation reserve (results) shall be reduced by the amount of impairment loss. If the amount of revaluation reserve (results) for a specific asset is lower then the amount of impairment loss, the part that exceeds the revaluation reserve is recognised as operating expenses of the reporting period.

33. If the amount of loss due to decrease in value is greater than the carrying amount of the asset, its carrying amount is reduced to zero. In addition, one shall check whether a liability should be recognised or a contingent liability disclosed in explanatory notes due to the remaining amount of the impairment loss.

34. After recognition of impairment loss, the adjusted depreciable value of the asset shall be depreciated (amortised) over the remaining useful life of the asset.

VIII. REVERSAL OF IMPAIRMENT

35. At each reporting date an entity shall assess whether there is any indication that an impairment loss recognized in prior reporting periods no longer exists or has materially decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset.

36. In assessing whether impairment loss recognised in prior accounting periods no longer exists or has decreased, the entity shall consider internal and external indications:

36.1. external indications of an increase in the value of an asset may be:

36.1.1. the asset's market value has increased significantly during the reporting period;

36.1.2. significant changes have taken place in the technological, market, economic or legal environment in which the entity operates with a favourable effect on the impaired asset;

36.1.3. market interest rates have decreased and, hence, the discount rate decreases to the extent that the recoverable value of the entity's assets increases materially.

36.2. internal indications of an increase in the value of an asset may be:

36.2.1. the extent of using an asset significantly increases or the scope of its usage extends;

36.2.2. accounting data shows that economic benefits generated by an asset are much greater than expected;

37. In assessing whether it is necessary to re–estimate the recoverable amount of an asset and to reverse impairment loss recognised in prior reporting periods materiality of the change in the value of the asset shall be taken into consideration.

38. Impairment loss recognised in prior reporting periods shall be reversed on the basis of the indications described in the paragraph 36, if estimates used to determine the asset's recoverable amount have changed since the last recognition of the impairment loss.

39. Examples of changes in estimates may be:

39.1. a change in the basis for recoverable amount (e.g., during the latest reporting period the recoverable amount was based on the net selling price, whereas now it is based on the value in use, if one of them has changed materially);

39.2. when the recoverable amount is based on value in use, the estimate may change if the amount or timing of estimated net future cash flows or the discount rate changes;

39.3. when the recoverable amount is based on net selling price, the estimate may change if the price increases materially.

40. Reversal of impairment loss recognised in prior reporting periods is presented in accounting by reducing operating expenses in the income statement of the reporting period.

41. If an asset is accounted for at its revaluation amount, and revaluation reserve (results) was reduced due to impairment and the remaining part (if any) was recorded in the income statement, then in reversing the loss operating expenses are reduced first and then the remaining portion is included into the revaluation reserve (results).

42. The increased carrying amount of an asset due to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior reporting periods.

43. After a reversal of an impairment loss and an increase in the value of an asset the revised carrying amount shall be depreciated (amortised) over the remaining useful life of the asset.

IX. DISCLOSING INFORMATION IN FINANCIAL STATEMENTS

44. In complete explanatory notes the following information shall be disclosed for each group of assets (non-current tangible assets, goodwill, etc.):

44.1. the amount of impairment losses recognised in the income statement;

44.2. the amount of reversals of impairment losses recognised in the income statement;

44.3. the amount of impairment losses recognised in items of equity during the reporting period;

44.4. the amount of reversals of impairment losses recognised in items of equity during the reporting period.

45. For all impairment losses recognised or reversed during a reporting period an entity shall disclose the following information:

45.1. the events and circumstances that led to their recognition or reversal;

45.2. the amounts of impairment losses recognised or reversed;

45.3. the nature and description of the impaired asset;

45.4. whether the recoverable amount of the asset was based on is its net selling price or its value in use;

45.5. the method used to determine net selling price if the recoverable amount is based on the net selling price (i.e., if the selling price was determined according to the active market or in another way);

45.6. the discount rates applied in the calculation of the current and previous (if such applicable) value in use if the recoverable amount is based on the value in use.

X. FINAL PROVISIONS

46. Upon the first-time application of this Standard the entity shall apply the provisions thereof starting from the effective date of this Standard. The comparative information of the prior reporting periods shall be adjusted according to the requirements of 7 Business Accounting Standard “Changes in Accounting Policies, Accounting Estimates, and Correction of Errors”.

47. This Standard shall be effective for financial statements covering periods beginning on or after 1 January 2005. It may be applied in preparing financial statements for 2004.