

Question 1 (13 marks)

At the beginning of year-1 Tianjin Limited issued a \$100,000 note in exchange for professional services it received. The note bears an 8.00% annual rate of interest and will be repaid at the end of year-2. Tianjin Limited has assessed this note and prevailing interest rates and has decided that it will use 10.00% when valuing the note.

The present value interest factor for a two period ordinary annuity is 1.783265 if using 8%.  
The present value interest factor for a two period ordinary annuity is 1.735537 if using 10%.  
The present value of \$1.00 received at the end of two periods is \$0.857339 if using 8%.  
The present value of \$1.00 received at the end of two periods is \$0.826446 if using 10%.

Required

- (1) Prepare Tianjin Limited's amortization table for this note.  
(2) Prepare Tianjin Limited's journal entry to record the issuance of this note.

	A	B	C	D	E	F	G	H	I	J	K
1			Accounting for Note Payable using the amortized cost measurement model.								
2											
3			Face value of the note						\$	100,000	
4			Number of years from issuance to the note's maturity date							2	
5			Stated rate							8.00%	
6			Market rate							10.00%	
7											
8			Yearly interest payment						\$	8,000	
9			Present Value Interest Factor (PVIF) of interest annuity							1.735537	
10			PVIF of maturity value							0.826446	
11											
12			PV of interest						\$	13,884.30	
13			PV of maturity value						\$	82,644.63	
14			PV of the expected cash outflows from the note						\$	96,528.93	
15											
16			Discount on the note payable						\$	3,471.07	
17											
18			Date of issuance of the note					Dr	Cr		
19			Professional services expense					\$	96,528.93		
20					Notes payable				\$	100,000.00	
21			Discount on the note payable					\$	3,471.07		
22											
23											
24	A	B	C	D	E = \$100,000 x 8.00%	F = C x 10.00%	G = F - E	H = D - G	I = C+G		
25			Amortized cost [unamortized carrying amount] of the note at BOY**	Discount on the note payable at the BOY	Credit Cash a/c	Debit Interest expense a/c	Credit: Discount on the note payable a/c [Amortization of discount on the note payable]	Discount on the note payable at the EOY**	Amortized cost [unamortized carrying amount] of the note at EOY		
26	1	\$	96,528.93	\$ 3,471.07	\$ 8,000	\$ 9,652.89	\$ 1,652.89	\$ 1,818.18	\$ 98,181.82		
27	2	\$	98,181.82	\$ 1,818.18	\$ 8,000	\$ 9,818.18	\$ 1,818.18	\$ (0.00)	\$ 100,000.00		
28	3	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
29					\$ 16,000.00	\$ 19,471.07	\$ 3,471.07				
30			** BOY = beginning of the year; EOY = end of the year.								

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			Limited-Life Intangible Assets.		Indefinite-Life Intangible Assets (excluding Goodwill).		Goodwill [the values below pertain to the Reporting Unit/Cash-Generating-Unit, including its Goodwill].
Has management observed events & circumstances indicating that there might be an impairment?			Yes		Yes		No
Carrying amount	A		\$5,000,000		\$5,000,000		\$16,000,000
Fair value	B(i)		\$5,100,000		\$4,700,000		\$18,000,000
Costs to sell	B(ii)		\$50,000		\$50,000		\$250,000
Undiscounted future cash flows from use and eventual sale	C		\$4,500,000		\$4,500,000		\$14,500,000
Present value of the future cash flows from use and eventual sale	D		\$3,500,000		\$3,500,000		\$12,800,000

**Question 2 (12 marks):** using the above data complete the following grid, applying IFRS:

	Under IFRS			
	Limited-Life Intangible Assets.		Indefinite-Life Intangible Assets (excluding Goodwill).	Goodwill
Should the asset be tested for impairment?	<p>Yes: IAS 36.9 stipulates 'An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.' After carrying out this assessment, in this case management has observed such an indication, and hence the asset should be tested for impairment.</p> <p>[Comment: IAS 36.9 is more directive than ASPE 3063.09 which states 'A long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable'.]</p>		<p>Yes, because IAS 36.9 includes the following requirement: 'Irrespective of whether there is any indication of impairment....an entity shall test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount.'</p>	<p>Yes, because IAS 36.10 and IAS 36.90 include the following requirements:</p> <p>IAS 36.10: 'Irrespective of whether there is any indication of impairment.....an entity shall...test goodwill acquired in a business combination for impairment annually...'</p> <p>IAS 36.90: 'A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired, by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognise the impairment loss in accordance with paragraph 104.'***</p>
Is the asset impaired? Show supporting calculations.				

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No, because the carrying amount of \$5,000,000 does not exceed the recoverable amount \$5,050,000 [which is the higher of the fair value \$5,100,000 less the costs to sell of \$50,000, and the present value of the future cash flows of \$4,500,000 less the costs to sell of \$50,000].

Yes, because the carrying amount of \$5,000,000 exceeds the recoverable amount (defined by IAS 36.6 - see Note 7 below) of \$4,650,000 [which is the higher of the fair value \$4,700,000 less the costs to sell of \$50,000, and the present value of the future cash flows of \$4,500,000 less the costs to sell of \$50,000].

No, because the carrying amount \$16,000,000 does not exceed the recoverable amount \$17,750,000 [which is the higher of the fair value \$18,000,000 less the costs to sell of \$250,000 and the present value of the future cash flows of \$14,500,000 less the costs to sell of \$250,000].

	'rational entity impairment model' and is used for (i) PP&E, (ii) Limited-Life Intangible Assets, and (iii) Indefinited-Life Intangible Assets and Goodwill.	testing is sometimes called the 'rational entity impairment model' and is used for (i) PP&E, (ii) Limited-Life Intangible Assets, and (iii) Indefinited-Life Intangible Assets and Goodwill.	'rational entity impairment model' and is used for (i) PP&E, (ii) Limited-Life Intangible Assets, and (iii) Indefinited-Life Intangible Assets and Goodwill.
If the asset is deemed to be impaired, what is the amount of the impairment loss to be recognized in the income statement? Show supporting calculations.	Not applicable: no impairment identified (see above).	\$350,000 [= the carrying amount of \$5,000,000 less the recoverable amount of \$4,650,000 (= higher of \$4,700,000 - \$50,000 and \$3,500,000)]	Not applicable: no impairment identified (see above).
Can an impairment loss reversal be recognized in a subsequent period, and if so, explain fully if there a limit to the reversal?	<p>Yes, an impairment loss reversal can be recognized in a subsequent period under both the cost and revaluation models.</p> <p>IAS 36.114: An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as described in paragraph 117, be increased to its recoverable amount. That increase is a reversal of an impairment loss.</p> <p>IAS 36.117: The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined less the amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.</p>	<p>Yes, an impairment loss reversal can be recognized in a subsequent period under both the cost and revaluation models.</p> <p>IAS 36.114: An impairment loss recognised in prior periods for an asset other than goodwill shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall, except as described in paragraph 117, be increased to its recoverable amount. That increase is a reversal of an impairment loss.</p> <p>IAS 36.117: The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined less the amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. [Comment: remember that an indefinite-life asset would have \$0 accumulated amortization].</p>	<p>No:</p> <p>IAS 36.124: An impairment loss recognised for goodwill shall not be reversed in a subsequent period.</p> <p>IAS 36.125: IAS 38 Intangible Assets prohibits the recognition of internally generated goodwill. Any increase in the recoverable amount of goodwill in the periods following the recognition of an impairment loss for that goodwill is likely to be an increase in internally generated goodwill, rather than a reversal of the impairment loss recognised for the acquired goodwill.</p>