

## CONCEPT: ASSET IMPAIRMENTS

- The value of an asset on the balance sheet should represent the future \_\_\_\_\_ the company will receive
  - ☐ GAAP requires that companies test both tangible and intangible assets for **impairment** \_\_\_\_\_
    - Expected Future Benefits > Net Book Value → \_\_\_\_\_
    - Expected Future Benefits < Net Book Value → \_\_\_\_\_
  - ☐ If an asset is determined impaired, a **loss on impairment** is taken on the income statement
  - ☐ The impairment marks the asset down to its \_\_\_\_\_ (market value)
- Steps of the Impairment Test:
  1. Test for impairment: Net Book Value > Estimated Future Cash Flows → the asset is \_\_\_\_\_
  2. If the asset is impaired, then Impairment Loss = Net Book Value – Fair Market Value

On December 31, Obsocorp tested its long-term assets for impairment. A patent with a net book value of \$65,000 was determined to have estimated future cash flows of \$53,500 and a fair value of \$50,000. Record any necessary entries related to this impairment test.

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Equity</u>
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NOTE: Once an asset has been written down for impairment, you can never write it back up, even if it increases in value

**PRACTICE:** Sprinting Printers, Inc. purchased a patent on a high-tech laser printer for \$750,000. The patent gives legal protection for twenty years, but Sprinting Printers believes that competitors will be able to mimic its capabilities in fifteen years. SP uses the straight-line method when amortizing the printer. After ten years, SP discovers that a competitor has created a more efficient holo-printer. At this point, SP determines that the estimated future cash flows of the printer are \$200,000. The fair value of the patent is zero on the open market. The entry to record the discovery of the new holo-printer would include:

- a) Credit to Patents for \$175,000
- b) Credit to Patents for \$250,000
- c) Credit to Patents for \$375,000
- d) Credit to Patents for \$750,000
- e) No entry is necessary related to these events