

AN EVALUATION OF ASSET IMPAIRMENT DECISIONS BY AUSTRALIAN FIRMS AND WHETHER THIS WAS IMPACTED BY AASB 136

DAVID BOND, BRETT GOVENDIR & PETER WELLS

IASB RESEARCH FORUM, HONG KONG, 11 OCTOBER 2015

UTS BUSINESS SCHOOL

AGENDA

- 1) Project Background
- 2) Project Objectives
- 3) Motivation and Contribution
- 4) Hypotheses
- 5) Method
- 6) Findings
- 7) Summary

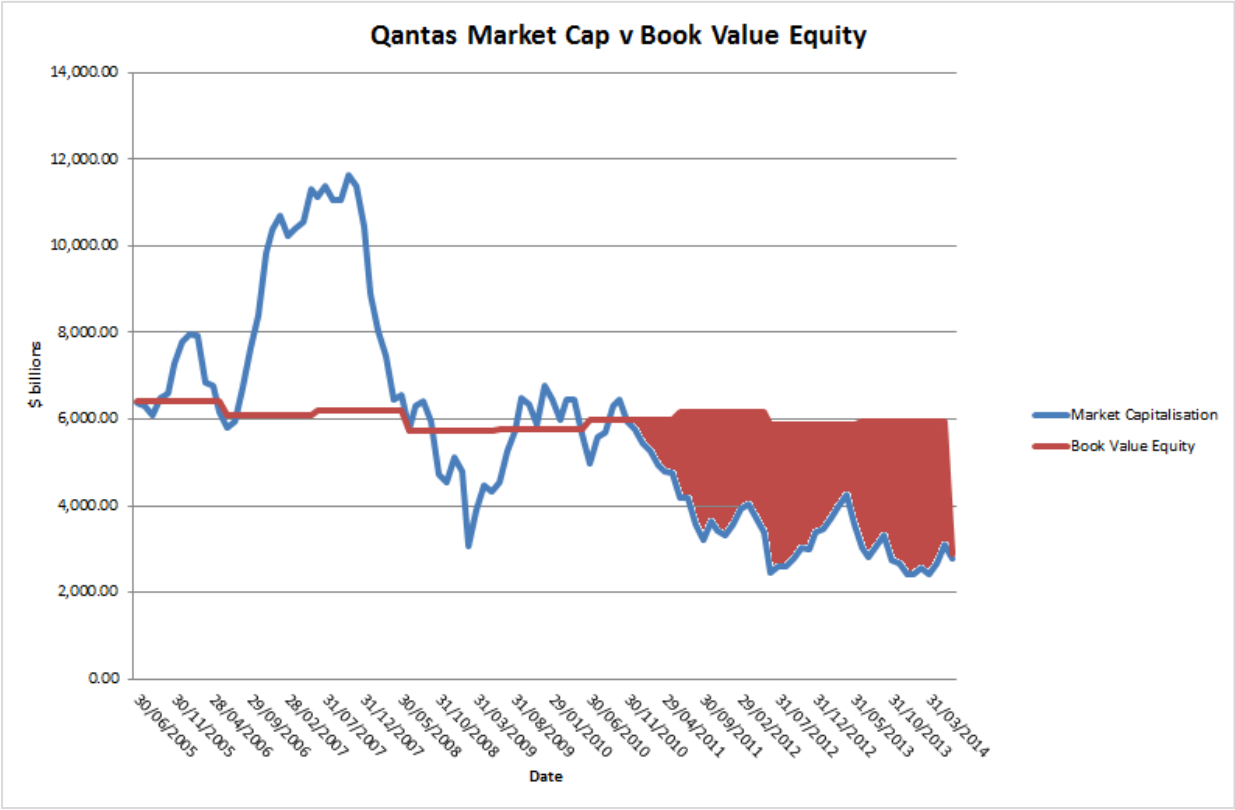


PROJECT BACKGROUND

Company	Market Cap	Book Value of Equity
BHP	\$124,228m	\$77,666m
C'wealth Bank	\$135,785m	\$45,492m
Woolworths	\$46,551m	\$9,301m
Fortescue	\$15,320m	\$5,702m
Qantas	\$2,932m	\$5,954m



PROJECT BACKGROUND



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.

AASB 136.9



In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

d) The carrying amount of the net assets of the entity is more than its market capitalisation;

AASB 136.12



An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period.

AASB 136.132



PROJECT OBJECTIVES

To get a better understanding of impairment decisions by firms

- 1) How these relate to indicators of impairment
- 2) Discretionary conservatism
- 3) Impacts of AASB 136 (IAS 36)



- 1) Companies with indicators of impairment
- 2) Interest to regulators and standard-setting bodies
- 3) Extend prior literature

“We continue to find issues with the impairment of goodwill and other non-financial assets by a number of companies.”

ASIC Commissioner John Price, 10 June 2015



- 1) Companies with indicators of impairment
- 2) Interest to regulators and standard-setting bodies
- 3) Extend prior literature

- Impairments – there has been a focus on goodwill
- Conservatism – add to emerging work on non-discretionary conservatism



RECOGNITION

H_{1a} : Positive association impairment recognition and indicators of impairment

MEASUREMENT

H_{1b} : Positive association between realised asset impairments and factors relevant to the determination of recoverable amount



NON-DISCRETIONARY CONSERVATISM

H₂: Not a positive association between impairment recognition and opportunistic incentives for impairments

- Existence and size

IFRS

H₃: Positive association between IFRS adoption and impairment recognition



Model – Recognition

$$Impair_{it} = \alpha_0 + \alpha_1 B/M_{it} + \alpha_2 Yrs_{it} + \alpha_3 BHR_{it} + \alpha_4 Earn_{it} + \alpha_5 CF_{it} + \varepsilon_{it}$$

(1a)

Impairment	= indicator: 1 no impairment, 0 if impairment
B/M	= ratio book value of equity over market value of equity
Yrs	= indicator: 1 if impairment this year or last, 0 otherwise
BHR	= buy-hold return for stock over financial year
Earn	= earnings before impairment charge per share
CF	= operating + investing cash flow per share



Model – Measurement

$$Impair_{it} = \beta_0 + \beta_1 Earn_{it} + \beta_2 CF_{it} + \varepsilon_{it} \quad (1b)$$

Impairment = continuous measure (i.e. \$ amount)



Model – Additional variables

ΔCEO = indicator: 1 if change in CEO during financial year, 0 otherwise

IFRS = indicator: 1 if year is 2006+, 0 otherwise

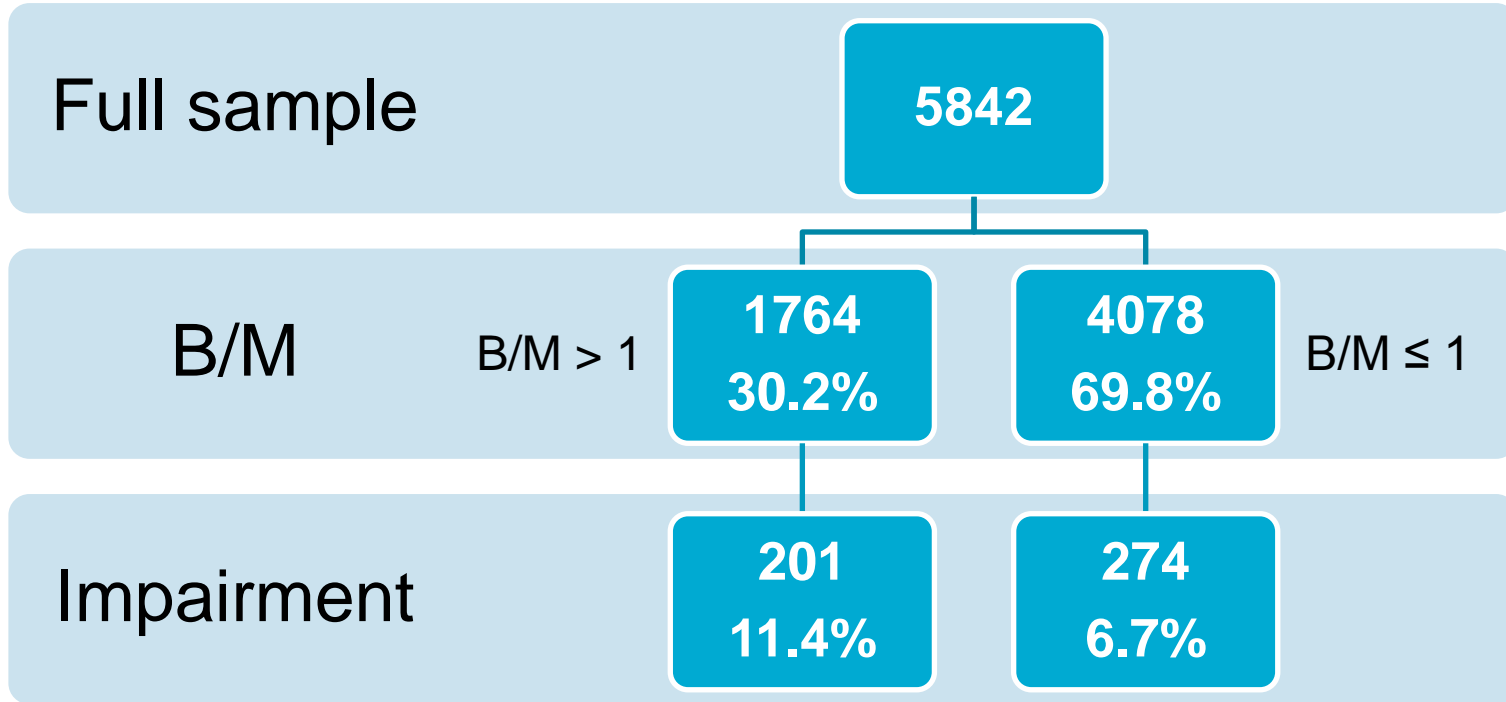


Sample

- Australian firms 2000 – 2012
- Databases: Morningstar Datanalysis, SIRCA SPPR, UTS Audit
- Exclusions: Financial services, real estate investment, agriculture
- **Final sample: n = 5842**



FINDINGS – DESCRIPTIVES



Extract Table 1 and 2



FINDINGS – DESCRIPTIVES

	Mean	Median
Assets	3.099	0.781
Earn	0.124	0.418
Impairment (Total)	-0.008	0.000

Extract Table 1



FINDINGS – DESCRIPTIVES

	no.	%
Impairments	475	
Goodwill	130	27.4%
Identifiable Intangibles	174	36.6%
Tangibles	333	70.1%
	Mean	Median
Impairment – Total	-0.096	-0.026

Extract Table 1



FINDINGS – RECOGNITION OF IMPAIRMENTS

Dependent variable = Impairment (dichotomous)

	Eq. 2A Full		Eq. 2A B/M>1	
B/M	0.074	1.272	0.003	0.050
Yrs	0.518	3.198***	-0.055	-0.248
BHR	-0.332	-3.371***	0.034	0.182
Earn	-0.196	-1.206	-1.507	-3.092***
CF	0.091	1.530	0.347	1.996*
Δ CEO	0.537	2.509**	0.457	1.328
Constant	-3.639	-24.154***	-2.754	-10.498***

Extract Table 3



FINDINGS – MEASUREMENT OF IMPAIRMENTS

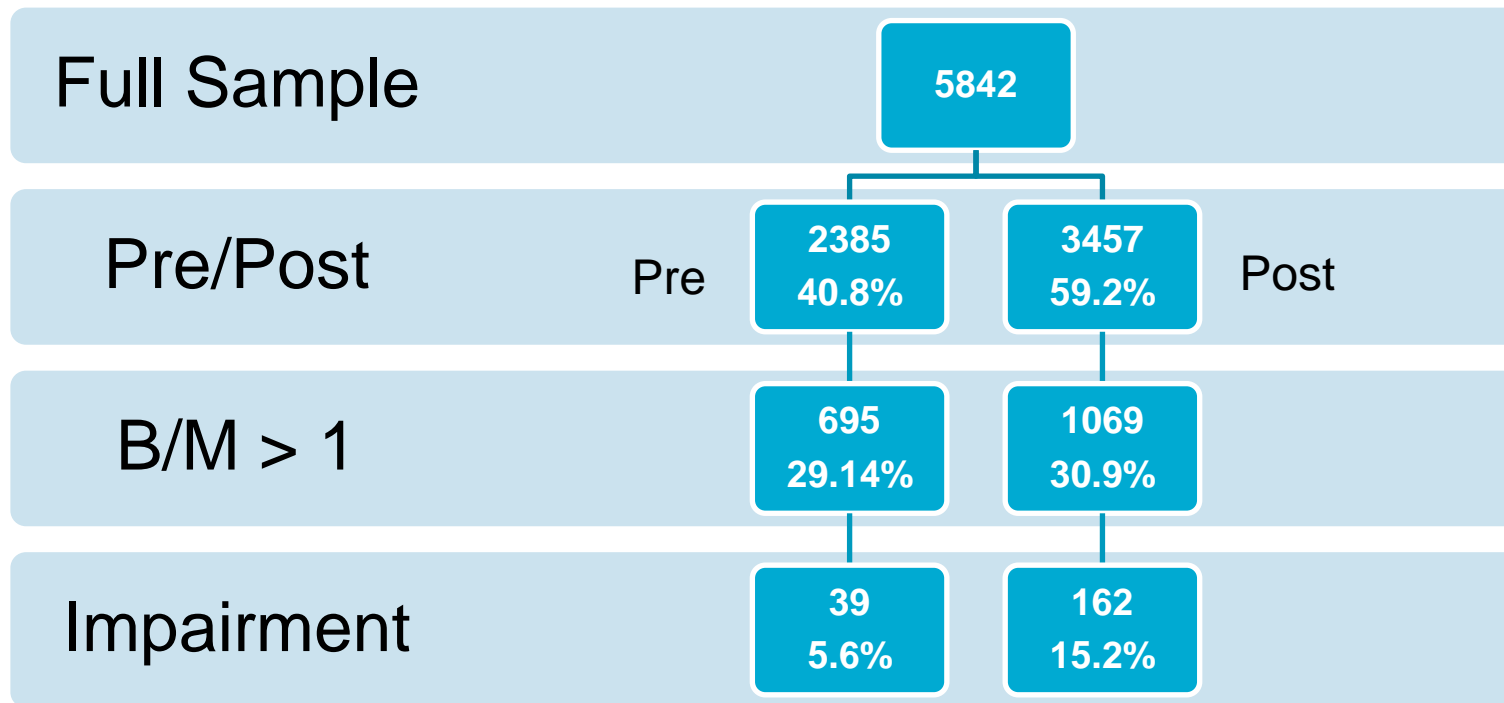
Dependent variable = Impairment (continuous)

	Eq. 2B Full		Eq. 2B B/M>1	
Earn	0.020	10.651***	0.037	7.371***
CF	-0.007	-7.644***	-0.015	-5.725***
Δ CEO	-0.003	-0.916	-0.008	-1.053
Constant	-0.010	-13.008***	-0.012	-8.490***

Extract Table 4



FINDINGS – DESCRIPTIVES (IFRS)



Extract Table 6



FINDINGS – RECOGNITION OF IMPAIRMENTS

Dependent variable = Impairment (dichotomous)

	Eq. 3A Full		Eq. 3A B/M>1	
B/M	-0.056	-0.912	0.026	0.372
Yrs	-0.598	-3.494***	-0.069	-0.302
BHR	0.265	2.734**	-0.079	-0.413
Earn	0.351	1.990*	1.592	3.161***
CF	-0.071	-1.146	-0.335	-1.851*
IFRS	-1.477	-10.095***	-1.471	-6.091***
Constant	4.816	22.032***	3.865	10.760***

Extract Table 7



- 30% of companies have $B/M > 1$
- 27% of impairments relate to goodwill
- No association between external indicators of impairment and impairments
- Impairments increased with AASB 136/IAS 36
- Not saying lack of impairment is incorrect
- Consider enhanced disclosure requirements

