Solutions to Assigned Exercises/Problems – Chapter 11

EXERCISE 11-5 (25-35 minutes)

Description	Date Purchased	Cost	Residual	Life	Method	Accum. Depr. to 31/12/2014	2015 Depr.
A	2/12/13	142,500	16,000	10	[a]	39,900	[b]
B	15/8/12	[c]	21,000	5	SL	29,000	[d]
C	21/7/11	75,400	23,500	8	DDB	[e]	[f]

Methods of Depreciation

Description	Date Purchased	Cost	Residual	Life	Method	Accum. Depr. to 31/12/2014	2015 Depr.
A	2/12/13	142,500	16,000	10	DDB	39,900	20,520
B	15/8/12	79,000	21,000	5	SL	29,000	11,600
C	21/7/11	75,400	23,500	8	DDB	47,567	4,333

(a) Machine A—Testing the methods:

Straight Line Method for 2013	$ 6,325.00
Straight Line Method for 2014	12,650.00
Total Straight Line	$18,975.00
Double Declining Balance for 2013	
= ($142,500 X .2 X .5)	$14,250.00
Double Declining Balance for 2014	
= ($142,500 - $14,250) X .2	25,650.00
Total Double Declining Balance	$39,900.00

(b) 2015 depreciation = ($142,500 – $39,900) X .20 = $20,520

EXERCISE 11-5 (continued)

(c) and (d) Machine B—Calculation of the cost

- **Asset has been depreciated for 2 1/2 years using the straight line method.**
- **Annual depreciation is then equal to $29,000 divided by 2.5 or $11,600.**
- **$11,600 times 5 plus the residual value is equal to the cost**
- **Cost is $79,000**

(e) Machine C—Using the double-declining balance method of depreciation

2011's depreciation is	**$ 9,425.00**	**(75,400 X .25 X .5)**
2012's depreciation is	**16,493.75**	
2013's depreciation is	**12,370.31**	
2014's depreciation is	**9,277.73**	
	$47,566.79	

(f) Using DDB, 2015 Depreciation is $4,333.21*

***to reduce to $23,500 residual value [($75,400 – $47,566.79) = $27,833.21 – $23,500 = $4,333.21].**

NOTE: $27,833.21 x .25 = $6,958. This amount of depreciation would reduce the carrying amount lower than the residual value. Therefore depreciation must be limited to $4,333.21.

EXERCISE 11-23 (20-25 minutes)

(a) Situation 1

(1) December 31, 2014

Depreciation Expense	**18,000**	
Accumulated Depreciation – Equipment		**18,000**

($100,000 – $10,000) ÷ 5 years

The equipment is reported on the statement of financial position at a carrying amount of $82,000 ($100,000 less accumulated depreciation of $18,000).

(2) December 31, 2015

Depreciation Expense	**18,000**	
Accumulated Depreciation – Equipment		**18,000**

($100,000 – $10,000) ÷ 5 years

The equipment is reported on the statement of financial position at a carrying amount of $64,000 ($100,000 less accumulated depreciation of $36,000).

(3) March 31, 2016

Depreciation Expense	**4,500**	
Accumulated Depreciation – Equipment		**4,500**

($100,000 – $10,000) ÷ 5 years X 3/12

Cash	**62,000**	
Accumulated Depreciation – Equipment	**40,500**	
***Gain on Disposal of Equipment (I/S)**		**2,500**
Equipment		**100,000**

***Per IAS 16, the gain or loss on disposal (the difference between the carrying amount and the proceeds on disposal) is reported on the income statement. Any amount remaining in the Revaluation Surplus account would be transferred directly to retained earnings.**

EXERCISE 11-23 (continued)

However, as discussed on page 692 in the text: "*Theoretically there would not be a gain or loss*" and the internally consistent approach on March 31, 2016 would be:

Accumulated Depreciation – Equipment	**40,500**	
Equipment [(18,000 x 2) + 4,500]		**40,500**
Equipment [62,000 – (100,000 – 40,500)]	**2,500**	
Revaluation surplus, Equipment (OCI)		**2,500**
Cash	**62,000**	
Equipment		**62,000**
Revaluation Surplus, Equipment (OCI)	**2,500**	
Retained Earnings*		**2,500**

Note: with this approach the $2,500 realized gain bypasses the Income Statement!

*** IAS 16.41:** ***The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.***

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(b) Situation 2

(1) December 31, 2014

1st step	**Depreciation Expense**	**17,800**	
	Accumulated Depreciation – Equipment		**17,800**
	($100,000 – $11,000*) ÷ 5 years		
2nd & 3rd steps	**Accumulated Depreciation – Equipment**.....	**17,800**	
	Equipment		**11,000**
	Revaluation Surplus (OCI)		**6,800**
	or		
2nd step	**Accumulated Depreciation – Equipment**.....	**17,800**	
	Equipment		**17,800**
3rd step	**Equipment**	**6,800**	
	Revaluation Surplus (OCI)		**6,800**

This is a *Type C* revaluation: see www.capitalassetrevaluation.com

*** IFRS & ASPE require changes in accounting estimates [such as a change in estimated residual value] to be applied in the period in which they are first identified and in subsequent periods [see '*Revision of Depreciation Rates*' on pages 682/3 in the textbook]: the on-line learning application www.capitalassetrevaluation.com also follows this approach. Unfortunately the revaluation model example on pages 617/8 in the textbook ignores this issue by assuming a residual value of $0 throughout.**

The equipment is reported on the balance sheet at a carrying amount of $89,000 (gross amount of $89,000 less accumulated depreciation of $0).

EXERCISE 11-23 (continued)

Note: The above represents a three step process. First, depreciation is allocated for the period according to normal depreciation principles. Second, since a formal revaluation is performed, the accumulated depreciation is written off to the gross equipment account and third, the equipment is revalued to its fair value. Upon disposal of the asset a fourth step is added to the above three steps, as demonstrated in part (3) below. In Step 4 we record the consideration received upon the asset's sale/disposal.

(2) December 31, 2015

Depreciation Expense	**19,500**	
Accumulated Depreciation – Equipment		**19,500**

($89,000 – $11,000) ÷ 4 years

The equipment is reported on the balance sheet at a carrying amount of $69,500 ($89,000 less accumulated depreciation of $19,500).

(3) March 31, 2016

1st step

Depreciation Expense	**4,875**	
Accumulated Depreciation		**4,875**

($89,000 – $11,000) ÷ 4 years X 3/12

Steps 2 to 4

Cash	**62,000**	
Accumulated Depreciation – Equipment	**24,375**	
Loss on Disposal (I/S)	**2,625**	
Equipment		**89,000**

***Per IAS 16, the gain or loss on disposal (the difference between the carrying amount and the proceeds on disposal) is reported on the income statement (see page 692 in textbook). The remaining balance in the Revaluation Surplus account is now transferred directly to Retained Earnings:**

Debit:	**AOCI**	**6,800**	
Credit:	**Retained Earnings**		**6,800**

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EXERCISE 11-23 (continued)

However, as discussed on page 692 in the text: "Theoretically there would not be a gain or loss" on March 31, 2016 and the internally consistent approach would be:

1st step	Depreciation Expense	4,875	
	Accumulated Depreciation		4,875

($89,000 – $11,000) ÷ 4 years X 3/12

2nd step	Accumulated Depreciation – Equipment	24,375	
	Equipment[19,500 + 4,875]		24,375
3rd step	Revaluation surplus, Equipment (OCI)	2,625	
	Equipment [62,000 – (89,000 - 24,375)]		2,625
	This is a *Type E* revaluation: see www.capitalassetrevaluation.com		
4th step	Cash	62,000	
	Equipment		62,000
5th step	Revaluation Surplus, Equipment (OCI)	4,175	
	Retained Earnings (6,800 – 2,625)		4,175

Note: with this approach the $4,175 realized gain bypasses the Income Statement!

Note: The derecognition of the asset under the revaluation model under the "page 692 approach" is a five step process:

Step 1: First, depreciation is allocated for the period according to normal depreciation principles;

Steps 2 & 3: Because the asset is being revalued, the accumulated depreciation is written off to the gross equipment account (step 2) and the equipment is revalued to its fair value (step 3);

Step 4: Record the consideration received upon the asset sale/disposal

Step 5: Transfer any balance in AOCI relating to this asset to Retained Earnings*.

** IAS 16.41: The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by an entity. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through profit or loss.*

Original cost:		**$100,000 (assumed)**
Depreciation expense:		
2014	**$17,800**	
2015	**19,500**	
2016	**4,875**	**42,175**
Subtotal		**57,825**
Sales proceeds		**62,000**
Realized gain on sale		**$4,175**

EXERCISE 11-15 (20-25 minutes)

(a) **1986-1995: ($1,800,000 – $400,000) ÷ 40 = $35,000/yr.**

(b) **1996-2013:**

Building ($1,800,000 – $400,000) ÷ 40 =	**$35,000/yr.**
Addition ($750,000 – $150,000) ÷ 30 =	**20,000/yr.**
	$55,000/yr.

(c) **No entry required because changes in estimate are handled in the current and prospective periods.**

(d) **Revised annual depreciation**

Building:	
Carrying amount: ($1,800,000 – $980,000*)	**$820,000**
Remaining useful life	**2 years**
Annual depreciation	**$410,000**
Addition:	
Carrying amount: ($750,000 – $360,000)**	**$390,000**
Remaining useful life	**2 years**
Annual depreciation	**$195,000**

***$35,000 X 28 years = $980,000**
****$20,000 X 18 years = $360,000**

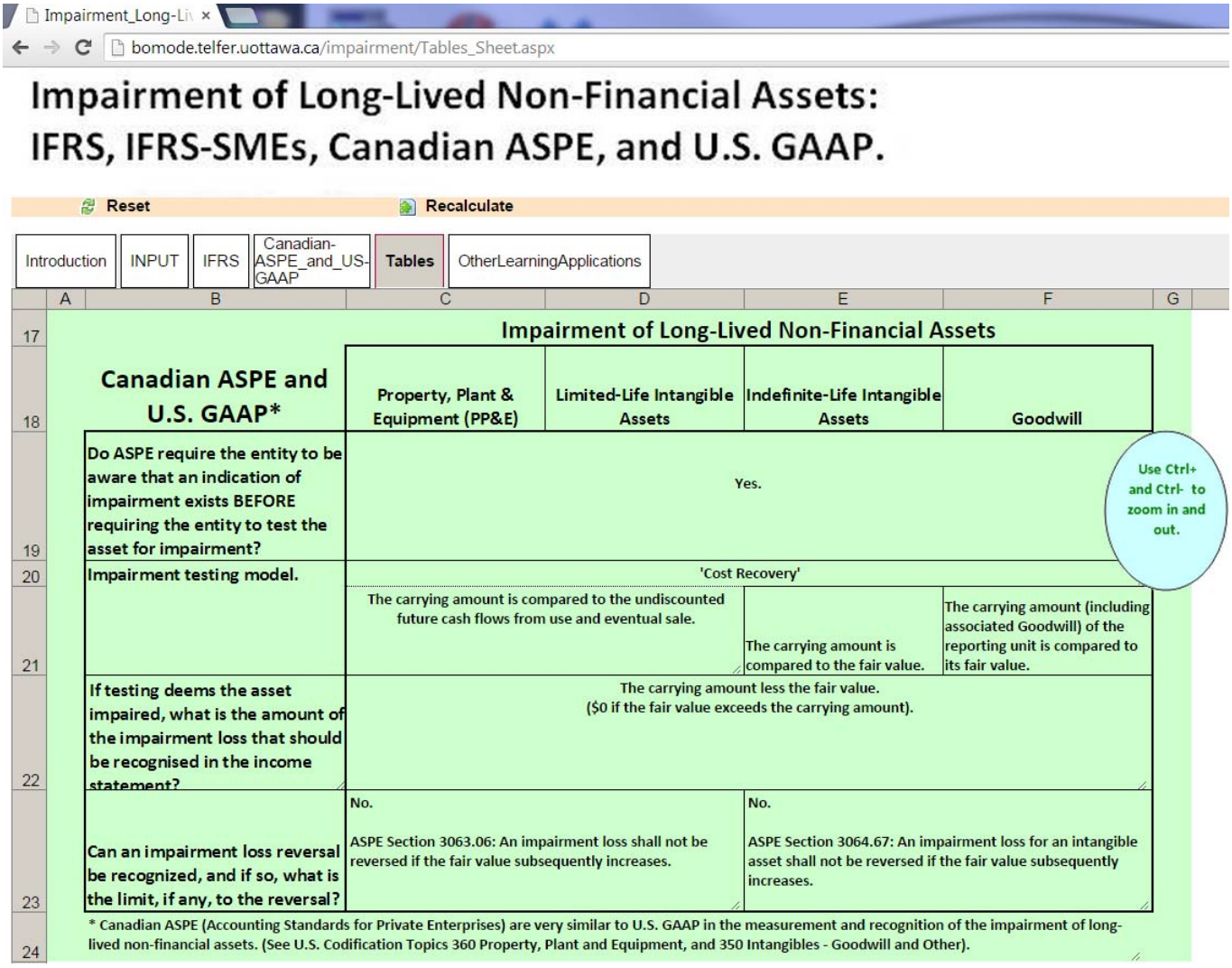
Note: 30 years total useful life; 28 years have lapsed so the unamortized balance is charged off over the two years of remaining expected useful life. Despite the amount, this is treated prospectively.

Annual depreciation expense:
Building ($410,000 + $195,000) = $605,000

EXERCISE 11-15 (Continued)

(e) The original useful life estimate would have been management's best estimate based on the information that was available. However, an investor who purchased shares in Lincoln in 2013 would have based his or her investment decision on financial statements that show annual building depreciation expense of $55,000/yr., when annual building depreciation expense would have been $76,667/yr. [($1,800,000 - $400,000) ÷ 30 + ($750,000 - $150,000) ÷ 20] based on an original useful life of 30 years. Annual building depreciation expense of $76,667/yr. for 28 years would have amounted to $2,146,676 in accumulated depreciation at end of 2013, whereas the financial statements at end of 2013 reported accumulated depreciation of $1,540,000. Also, the investor would have invested based on the information that the building would be useful for another 12 years (until 2025), although Lincoln will likely need to invest in a new building within 2 years, if the company intends to occupy a building within the same district. The investor should also be concerned that the building should be tested for impairment, since the value of the building on the balance sheet is likely overstated (it is based on an original useful life of 40 years), and there are now only 2 years of useful life remaining. Review of asset useful life at least at each year end helps to ensure that financial statements are prepared based on the most relevant information available.

EXERCISE 11-20 (20-25 minutes) Source: www.impairmentlonglivednonfinancialassets.com



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Impairment of Long-Lived Non-Financial Assets: IFRS, IFRS-SMEs, Canadian ASPE, and U.S. GAAP.

Reset Recalculate

Introduction | INPUT | IFRS | Canadian-ASPE_and_US-GAAP | **Tables** | OtherLearningApplications

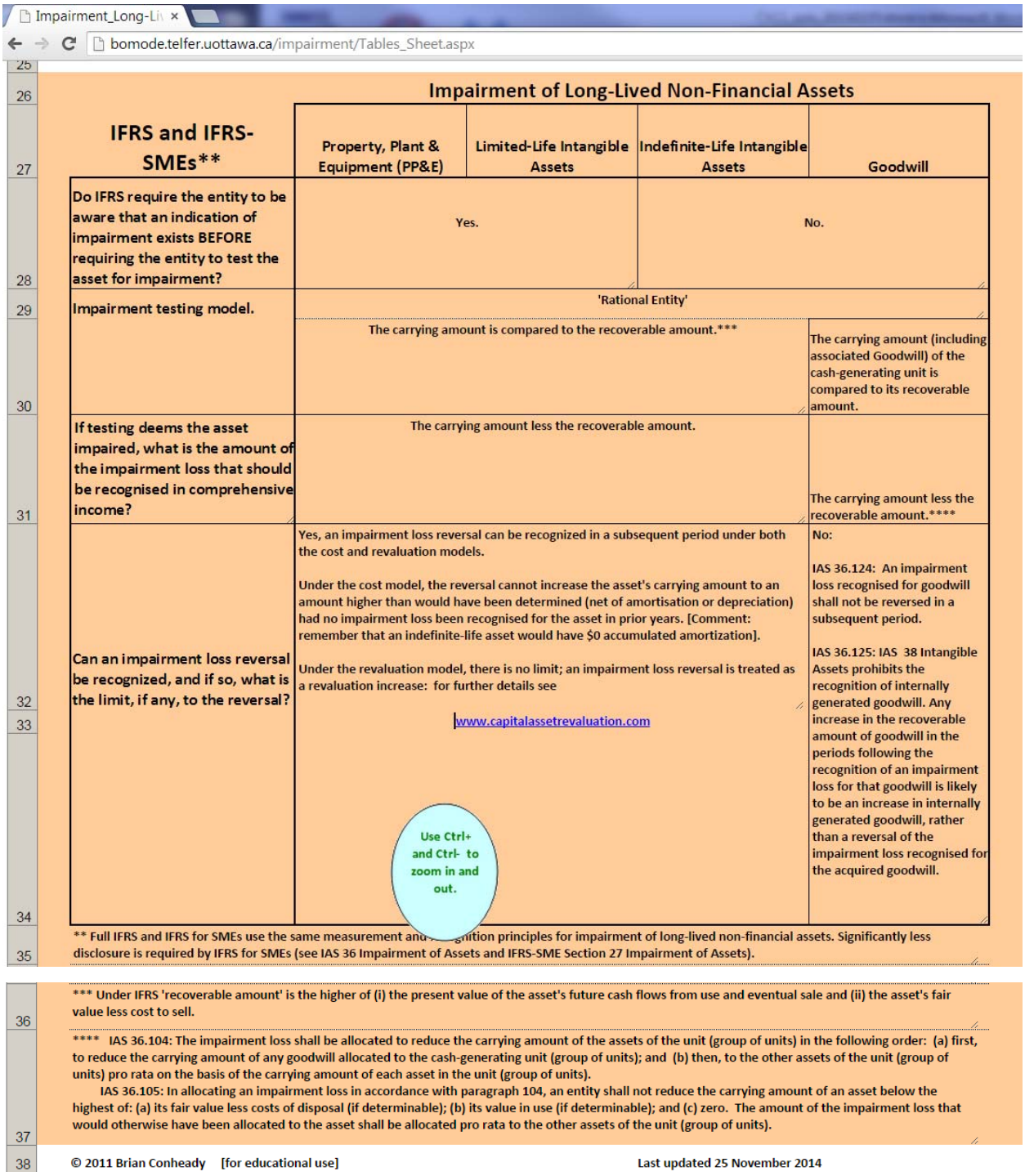
Use Ctrl+ and Ctrl- to zoom in and out.

Impairment of Long-Lived Non-Financial Assets

Canadian ASPE and U.S. GAAP*	Property, Plant & Equipment (PP&E)	Limited-Life Intangible Assets	Indefinite-Life Intangible Assets	Goodwill
Do ASPE require the entity to be aware that an indication of impairment exists BEFORE requiring the entity to test the asset for impairment?	Yes.			
Impairment testing model.	'Cost Recovery'			
	The carrying amount is compared to the undiscounted future cash flows from use and eventual sale.		The carrying amount is compared to the fair value.	The carrying amount (including associated Goodwill) of the reporting unit is compared to its fair value.
If testing deems the asset impaired, what is the amount of the impairment loss that should be recognised in the income statement?	The carrying amount less the fair value. ($0 if the fair value exceeds the carrying amount).			
Can an impairment loss reversal be recognized, and if so, what is the limit, if any, to the reversal?	No. ASPE Section 3063.06: An impairment loss shall not be reversed if the fair value subsequently increases.		No. ASPE Section 3064.67: An impairment loss for an intangible asset shall not be reversed if the fair value subsequently increases.	

* Canadian ASPE (Accounting Standards for Private Enterprises) are very similar to U.S. GAAP in the measurement and recognition of the impairment of long-lived non-financial assets. (See U.S. Codification Topics 360 Property, Plant and Equipment, and 350 Intangibles - Goodwill and Other).

EXERCISE 11-20 (continued)



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Impairment of Long-Lived Non-Financial Assets

IFRS and IFRS-SMEs**	Property, Plant & Equipment (PP&E)	Limited-Life Intangible Assets	Indefinite-Life Intangible Assets	Goodwill
Do IFRS require the entity to be aware that an indication of impairment exists BEFORE requiring the entity to test the asset for impairment?	Yes.		No.	
Impairment testing model.	'Rational Entity'			
	The carrying amount is compared to the recoverable amount.***			The carrying amount (including associated Goodwill) of the cash-generating unit is compared to its recoverable amount.
If testing deems the asset impaired, what is the amount of the impairment loss that should be recognised in comprehensive income?	The carrying amount less the recoverable amount.			The carrying amount less the recoverable amount.****
Can an impairment loss reversal be recognized, and if so, what is the limit, if any, to the reversal?	Yes, an impairment loss reversal can be recognized in a subsequent period under both the cost and revaluation models. Under the cost model, the reversal cannot increase the asset's carrying amount to an amount higher than would have been determined (net of 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]. Under the revaluation model, there is no limit; an impairment loss reversal is treated as a revaluation increase: for further details see www.capitalassetrevaluation.com			No: IAS 36.124: An impairment loss recognised for goodwill shall not be reversed in a subsequent period. 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.

Use Ctrl+ and Ctrl- to zoom in and out.

** Full IFRS and IFRS for SMEs use the same measurement and [illegible]nition principles for impairment of long-lived non-financial assets. Significantly less disclosure is required by IFRS for SMEs (see IAS 36 Impairment of Assets and IFRS-SME Section 27 Impairment of Assets).

*** Under IFRS 'recoverable amount' is the higher of (i) the present value of the asset's future cash flows from use and eventual sale and (ii) the asset's fair value less cost to sell.

**** IAS 36.104: The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order: (a) first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and (b) then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

IAS 36.105: In allocating an impairment loss in accordance with paragraph 104, an entity shall not reduce the carrying amount of an asset below the highest of: (a) its fair value less costs of disposal (if determinable); (b) its value in use (if determinable); and (c) zero. The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units).

Last updated 25 November 2014

Source: [www. impairmentlonglivednonfinancialassets.com](http://www.impairmentlonglivednonfinancialassets.com)

EXERCISE 11-20 (continued)

(a) Assuming private company following ASPE – Cost Recovery Impairment Model

(1) December 31, 2014

Loss on Impairment (I/S)	1,800,000	
Accumulated Impairment Losses - Equipment		1,800,000

Under ASPE, the asset's recoverable amount is $7,000,000, undiscounted future net cash flows.

The ASPE recovery test indicates that impairment has occurred since the carrying amount [$8,000,000] exceeds recoverable amount [$7,000,000]. The impairment loss is then calculated as follows:

Cost	$9,000,000
Accumulated depreciation	1,000,000
Carrying amount	8,000,000
Fair value	6,200,000
Impairment loss	$1,800,000

Note that if the ASPE recovery test indicates that an impairment has occurred, the impairment loss is not calculated as the difference between the carrying amount of $8,000,000 and the ASPE-defined recoverable amount of $7,000,000.

(2) December 31, 2015

Depreciation Expense	1,550,000	
Accumulated Depreciation -Equipment		1,550,000

New carrying amount	$6,200,000
Useful life	4 years
Depreciation per year (assume $0 residual value)	$1,550,000

(3) No entry necessary. Recovery of any impairment loss is not permitted under ASPE for the following assets: (i) PP&E - property, plant and equipment, (ii) intangible assets, (iii) goodwill.

(b) Assuming public company following IFRS – Rational Entity Impairment Model when using the Amortized Cost Model

(1) Under IFRS, the asset's recoverable amount is $6,350,000 [the higher of (i) its value in use (i.e. discounted future net cash flows, $6,350,000) and (ii) $6,150,000 (its fair value less costs to sell, $6,200,000-$50,000)].

The recovery test indicates that impairment has occurred since the carrying amount [$8,000,000] exceeds the recoverable amount [$6,350,000]. The impairment loss is then calculated as follows:

Cost	$9,000,000
Accumulated depreciation	1,000,000
Carrying amount	8,000,000
Recoverable amount	6,350,000
Impairment loss	$1,650,000

December 31, 2014

Loss on Impairment (I/S)	1,650,000	
Accumulated Impairment Losses -Equipment		1,650,000

EXERCISE 11-20 (Continued)

(2)

December 31, 2015

Depreciation Expense	1,587,500	
Accumulated Depreciation - Equipment *		1,587,500

New carrying amount	$6,350,000
Useful life	4 years
Depreciation per year (assume $0 residual value)	$1,587,500

(3) Under IAS 36, the reversal of a previous impairment loss amount is limited when using the amortized cost model. The specific asset cannot be increased in value to more than what its carrying amount would have been, net of depreciation, if the original impairment loss had never been recognized.

December 31, 2014 pre-impairment loss carrying amount	$8,000,000
2015 depreciation based on pre-impairment carrying amount ($8,000,000 ÷ 4 years)	2,000,000
December 31, 2015 'pre-impairment' carrying amount	$6,000,000

The December 31, 2015 carrying amount would have been $6,000,000 if the impairment had not occurred; this is the maximum carrying amount which can be reflected for the equipment in the December 31, 2015 balance sheet.

Actual December 31, 2014 carrying amount		$6,350,000
Actual 2015 depreciation (assume $0 residual value)	(a)	1,587,500
'Indicated' December 31, 2015 carrying amount		4,762,500
December 31, 2015 'pre-impairment' carrying amount		6,000,000
Recovery of previously recognized impairment	(b)	$1,237,500

Thus, the net effect on the 2015 net income (loss) is a net decrease of $350,000 [= (a) – (b)]. The asset cannot be restored to its indicated December 31, 2014 balance of $6,350,000 as this exceeds the carrying amount that would have existed at this date had the impairment in 2014 never been recognized.

December 31, 2015

Accumulated Impairment Losses – Equipment*	1,237,500	
Recovery of Impairment Loss (I/S)		1,237,500

*Or: Equipment a/c

EXERCISE 11-20 (Continued)

(c) Assuming the company follows IFRS – Rational Entity Impairment Model – when using the Revaluation Model [not asked by the texbook]

(1) The impairment loss is $1,650,000, determined using the rational entity impairment model in E11-20 part (b)(1) above on page 11/18. When using the Revaluation Model an impairment loss is treated as a *revaluation decrease* and the following journal entry is made:

December 31, 2014

Accumulated Depreciation, Equipment	1,000,000	
Equipment		1,000,000
Revaluation decrease – Equipment (I/S)	1,650,000	
Equipment		1,650,000

This is a Type **F** revaluation: see www.capitalassetrevaluation.com
The above journal entry assumes this is the first revaluation of the asset subsequent to its acquistion.

(2)

December 31, 2015

Depreciation Expense	1,587,500	
Accumulated Depreciation - Equipment		1,587,500

New carrying amount	$6,350,000
Useful life	4 years
Depreciation per year (assume $0 residual value)	$1,587,500

(3) When using IAS 16's Revaluation Model the reversal of a previous impairment loss amount is not limited, and is treated as a *revaluation increase*.

Actual December 31, 2014 carrying amount	$6,350,000
Actual 2015 depreciation	1,587,500
'Indicated' December 31, 2015 carrying amount	4,762,500
Fair value at 31/12/2015……..	6,500,000
Potential impairment loss reversal*	$1,737,500

* treated as a *revaluation increase* by the Revaluation Model.

December 31, 2015

Accumulated Depreciation – Equipment	1,587,500	
Equipment		1,587,500
Equipment	1,737,500	
Gain on impairment loss reversal on Equipment account (I/S)		1,650,000
Revaluation surplus, Equipment (OCI) [87,500 = 1,737,500 – 1,650,000]		87,500

This is a Type A revaluation: see www.capitalassetrevaluation.com

EXERCISE 11-21 (15-20 minutes)

(a & b) **Note to students: this question's title ,"(Impairment – Cost Recovery and Rational Entity Models)", appears in older print editions and is incorrect/inappropriate because it hints that the *cost recovery* and *rational entity models* can be applied to *held-for-sale assets*. The *cost recovery* or *rational entity impairment models* are not applied to *held-for-sale assets* (see ASPE Section 3063.01 and IAS 36.2(i), respectively). Under both ASPE (Section 3475.13) and IFRS (IFRS 5.15) *held-for-sale assets* are measured at the lower of carrying amount and fair value less cost to sell (i.e., at the lower of cost and net realizable value, just like inventory).**

(1)	**Loss on Impairment**	**1,850,000**	
	Accumulated Impairment Losses—Equipment		**1,850,000**

Cost	**$9,000,000**
Accumulated depreciation	**1,000,000**
Carrying amount	**8,000,000**
Less: Fair value	**(6,200,000)**
Plus: Costs of disposal	**50,000**
Impairment loss	**$1,850,000**

Held for sale assets are valued at fair value less costs to sell.

(2) **No entry necessary. Depreciation not taken on assets held for sale.**

(3)

Accumulated Impairment Losses—Equipment	**300,000**	
Recovery of Loss from Impairment		**300,000**

Fair value	**$6,500,000**	
Less: Costs of disposal	**50,000**	**6,450,000**
Carrying amount*		**6,150,000**
Recovery of loss from impairment		**$300,000**

***($9,000,000 – $1,000,000 – $1,850,000)**

Note: under IFRS 5.20/21 and ASPE 3475, impairment loss reversals of non-current assets *held-for-sale* are permitted but are limited to the amount of cumulative impairment losses previously recognized. (see textbook's page 167).

(4) **Under IFRS "assets held-for-sale are generally classified as current assets" (see textbook's page 167): however, the equipment is separately reported as a non-current asset if it meets the definition of non-current asset (see the Kinross Gold example below). Under ASPE (see textbook's page 167) the equipment would be reported separately in the**

statement of financial position as a non-current asset held for sale. It would be shown at the lower of its carrying amount and fair value less costs to sell.

KINROSS GOLD CORPORATION

CONSOLIDATED BALANCE SHEETS

(expressed in millions of United States dollars, except share amounts)

		As at March 31, 2008 (unaudited)	As at December 31, 2007
Assets			
Current assets			
Cash and cash equivalents	Note 4	$ 732.9	$ 551.3
Restricted cash		2.4	2.4
Short-term investments		156.6	9.9
Accounts receivable and other assets	Note 4	102.9	95.2
Inventories	Note 4	240.3	242.8
Unrealized fair value of derivative assets	Note 6	14.9	24.0
Current assets held for sale		—	8.1
		1,250.0	933.7
Property, plant and equipment	Note 4	3,485.6	3,476.3
Goodwill	Note 4	2,176.0	2,014.8
Long-term investments	Note 4	108.7	127.7
Future income and mining taxes		8.9	33.3
Unrealized fair value of derivative assets	Note 6	3.1	3.5
Deferred charges and other long-term assets	Note 4	145.4	136.3
Long-term assets held for sale		—	3.7
		$ 7,177.7	$ 6,729.3
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	Note 4	$ 278.3	$ 290.1
Current portion of long-term debt	Note 7	110.9	76.0
Current portion of reclamation and remediation obligations	Note 8	9.0	10.0
Current portion of unrealized fair value of derivative liabilities	Note 6	54.0	29.1
Current liabilities of the assets held for sale		—	2.2
		452.2	407.4
Long-term debt	Note 7	836.2	488.1
Reclamation and remediation obligations	Note 8	226.7	212.4
Unrealized fair value of derivative liabilities	Note 6	335.4	266.0
Future income and mining taxes		417.0	465.9
Other long-term liabilities		28.5	20.6
Long-term liabilities of the assets held for sale		—	7.0
		2,296.0	1,867.4
Non-controlling interest		14.0	14.0
Convertible preferred shares of subsidiary company		10.1	10.1
Common shareholders' equity			
Common share capital and common share purchase warrants	Note 9	5,241.2	5,123.6
Contributed surplus		57.8	65.4
Accumulated deficit		(195.8)	(253.1)
Accumulated other comprehensive income	Note 5	(245.6)	(98.1)
		4,857.6	4,837.8
Commitments and contingencies	Note 12		
		$ 7,177.7	$ 6,729.3

EXERCISE 11-19 (20-25 minutes)

(a)

Under IFRS, the recoverable amount of the cash-generating unit (CGU) is the higher of (1) value in use and (2) fair value less costs to sell. The recoverable amount of the CGU is $108,000, which is lower than the carrying amount of the CGU ($120,000), therefore the CGU is impaired. The impairment loss is $12,000 ($120,000 - $108,000).

The impairment loss is allocated to the individual assets in the unit, but no individual asset is reduced to below the highest of (1) its value in use, (2) its fair value less costs to sell, or (3) zero.

Allocation of impairment loss to assets in cash-generating unit (CGU):

	Carrying Amount (before impairment)	Proportion	Loss Allocation	Carrying Amount (after impairment)
Land	$25,000	25/120	$2,500	$22,500
Building	50,000	50/120	5,000	45,000
Equipment	30,000	30/120	3,000	27,000
Trucks	15,000	15/120	1,500	13,500
	$120,000		$12,000	$108,000

The journal entry to recognize the impairment loss is:

Loss on Impairment	12,000	
Land		2,500
Accumulated Impairment Losses—Buildings		5,000
Accumulated Impairment Losses—Equipment		3,000
Accumulated Impairment Losses—Trucks		1,500

EXERCISE 11-19 (Continued)

(b)

Since the recoverable amount of the building is determined to be $46,000, the building cannot be reduced to below $46,000 (note that from part (a), a true proportionate allocation would result in building carrying amount of less than $46,000).

Allocation of impairment loss to assets in cash-generating unit (CGU):

	Carrying Amount (before impairment)	Proportion	Loss Allocation	Carrying Amount (after impairment)
Land	$25,000	*25/70	**$2,857	$22,143
Buildings	50,000		4,000	46,000
Equipment	30,000	30/70	3,428	26,572
Trucks	15,000	15/70	1,715	13,285
	$120,000		$12,000	$108,000

***Allocation base = $25,000 + $30,000 + $15,000 = $70,000**

****Impairment loss to allocate = $12,000 total – $4,000 allocated to buildings = $8,000; $8,000 impairment loss to allocate X 25/70 = $2,857 allocated to land**

The journal entry to recognize the impairment loss is:

Loss on Impairment.....	12,000	
Land		2,857
Accumulated Impairment Losses— Buildings		4,000
Accumulated Impairment Losses— Equipment		3,428
Accumulated Impairment Losses— Trucks		1,715

(c)

Under ASPE, the asset group is impaired if its undiscounted future net cash flows are less than its carrying amount. The undiscounted future net cash flows are $144,000, which is higher than the asset group's carrying amount of $120,000. Therefore the asset group is not impaired and no entry is necessary.

EXERCISE 11-24 (10-15 minutes)

Situation 1

Depreciation Expense	2,700	
Accumulated Depreciation—Equipment		2,700

($120,000 – $12,000) ÷ 10 X 3/12 = $2,700

Cash	28,000	
Loss on Disposal of Equipment	13,700	
Accumulated Depreciation—Equipment ($75,600 + $2,700)	78,300	
Equipment		120,000

Situation 2

Depreciation Expense	1,750	
Accumulated Depreciation—Machinery		1,750

($38,000 – $2,000) ÷ 12 X 7/12 = $1,750

Cash	10,000	
Loss on Disposal of Machinery	2,250	
Accumulated Depreciation—Machinery ($24,000* + $1,750)	25,750	
Machinery		38,000

*Accumulated depreciation to December 31, 2013 is ($38,000 – $2,000) ÷ 12 X 8 yrs = $24,000

Situation 3

Cash	5,200	
Accumulated Depreciation—Office Equipment	8,500	
Office Equipment		12,000
Gain on Disposal of Equipment		1,700