This document should be used as a guideline for understanding the treatments of assets in the second half of BU387. Updated Fall 2023.

Chapter 7 - Cash and Receivables:

Recognition:

- ARs are verbal promises, NRs are written promises
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Initial Measurement:

Subsequent Measurement:

- Long-term NRs need to be recognized at fair value, basically spreading out the discount/premium over the amortization of the bond
- **Allowance Method:** Use Bad Debt Expense to recognize uncollectible amounts. Write-off the accounts if defaulted through reducing AFDA.
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Impairment Test: Writing down the book value to collectible amount

- Percentage-of-receivables approach
- The aging method

Derecognition:

- Direct derecognition
- **Factoring Receivables (Liabilities recognized at fair value)**
    - Could be **seller service-ing A/R, recognizing a service liability**
    - Could be **with recourse, seller assuming some risk in cash collection**

Things to remember:

- remember that writeoff and recovery are AFDA sub accounts
- when recording a N/R, you use the BORROWER's credit risk to account for the PV
- Factors charge deposits, these are your assets "Due from Factor", any fees charged are expensed as loss on disposal
- Recognition of a recourse liability is immediately expenses as a loss on sale of receivables

Chapter 8 - Inventory:

Recognition:

- **FOB Shipping Point:** Goods in transit should be included in buyer's inventory
- **FOB Destination:** Goods in transit should be included in seller's inventory
- **Consignment:** Inventory out on consignment remains the consignor's assets

Initial Measurement:

- Includes:
  - purchase costs (with purchase returns and purchase discounts)
  - Transportation and handling costs
  - Non-recoverable taxes and duties
  - Conversion costs (e.g. direct labour and manufacturing overhead)
- Excludes
  - Storage costs, unless they are necessary for the next stage of production, such as in wine production.
  - Abnormal spoilage or wastage of materials, labor and other production costs.
  - Selling expenses, general and administrative expenses. Such costs are period costs.
  - Interest costs incurred for purchasing ready-for-use or ready-for-sale inventories on delayed payment terms.

Subsequent Measurement:

- Perpetual / Periodic + FIFO / WA, or specific ID
- Estimate ending inventory using the **retail inventory method**
  - Involves the following cost to retail ratio (Beg Inv at Cost + Purchases at Cost) / (Beg Inventory at Retail + Purchases at Retail) = (End Inv at Cost)/(End Inv at Retail)
    - Note: Purchases at cost is **net purchases,** be sure to include freight-in and subtract returns
    - Note: Purchases at retail value are also **net,** they net out purchase returns **at sales price** and any markups/markdowns/cancellations
    - Note: sales is **net sales**

Impairment Test: Writing down the book value to LC & NRV

- Lower of cost, and the net realizable value (estimated selling price - cost to sell) → recorded using COGS

Derecognition:

Chapter 9 - Investments:

Recognition:

- Investments held for short-term trading only: FV-NI
- Investments held to maturity: amortized cost
- Investments held for collecting cash flow and later sold: FV-OCI

Initial Measurement:

- FV-NI: Fair value, transaction costs **expensed immediately**
- FV-OCI: Fair value + transaction costs capitalized
- Amortized Cost: At cost, including transaction cost
- Equity Method: Purchase cost of acquired shares, any payment in excess of net assets is part of cost of investment

Subsequent Measurement:

- Amortized Cost for Debt: Amortizing the bond discount/premium and any interest income
- FV-NI: All gains/losses (unrealized and realized) recorded in net income
- FV-OCI (Equities): Unrealized gain/loss through OCI, not recycled in net income. Just goes through RE directly when closed. Realized gains still in net income
- FV-OCI (Debt): Unrealized gain/loss through OCI, **recycled through net income** at the end
- Investments in associates: Recognize investor's share of associate's income in NI, increasing carrying amount of investment. Must retain same type of income as reported by associate. Dividends reduce carrying value of investment.

Impairment Test: Writing down the book value to collectible amount

- Equity Method: write down carrying amount to the recoverable amount and recognize impairment loss **if and only if** it is for **objective evidence of a loss event**

Derecognition:

Chapter 10 - PP&E:

Recognition:

- Long-lived assets such as buildings, investment property, equipment, or mineral resource
- Tangible capital assets

Initial Measurement:

- Include total cost of PP&E asset including all expenses to acquire asset and bring to its locations ready for use
- If several assets purchased for one price → allocate based on FV
- Different Purchase Methods:
    - Purchased **with notes** → cost of PP&E is PV of note. Any difference between PV and total payments is interest expense
    - If purchased with **nonmonetary asset**, use the nonmonetary asset fair value as the cost of PP&E acquired unless transaction lacks commercial substance or fair value of PP&E asset is more reliably measured. Difference between carrying amount and FV is loss/gain on disposal
    - If purchased with **shares,** use fair value of the asset acquired unless company is publicly traded or FV of pp&e asset is hard to determine
    - If asset is given as **donation, or grant:** use FV of the asset
- Special Cost Measurements:
    - Additions to the asset → capitalized
    - Replacements, major overhauls, inspections → capitalized
    - Rearrangement and reinstallation → capitalized if known/estimable original installation cost, otherwise expensed
    - Repairs → expenses
    - Borrowing Costs → capitalize over the period of construction

Subsequent Measurement:

- Cost Model (allowed for both) → Simply Cost - Accum Dep - Accum Impairment Loss
- Revaluation Model (allowed for other PP&E assets): At revaluation date → balance in Accum Dep account is written off against the asset, then asset is adjusted to revalued amount, recording the change in FV as Revaluation Surplus - OCI. If this causes OCI/AOCI to be negative, take the excess losses and transfer to net income and call it **Revaluation gain/loss**. New depreciation is calculated on revalued amount
    - Have the option to close this Revaluation Surplus account to R/E every period, or keep it in AOCI-Revaluation Surplus until asset is disposed of
- Fair Value Model (only allowed for investment property): changes in value recorded in net income, **no depreciation is recognized over asset life**

- Capitalization of Borrowing Costs: IFRS gets borrowing costs capitalized if incurred for acquiring or constructing PP&E that takes a hot minute, and otherwise would be available

Impairment Test: Writing down the book value to collectible amount

Derecognition:

- Revaluation Model
    - If there is any remaining credit balance in Revaluation Surplus - AOCI, must transfer directly to R/E unless done in prior periods already

Chapter 11 - Depreciation, Impairment, and Disposition:

Recognition:

Initial Measurement:

Subsequent Measurement:

- IFRS Straight Line: (Cost - Residual Value)/Useful Life
- ASPE Straight Line: higher of IFRS and (Cost - Salvage Value)/Physical Life
- Diminishing balance method: (Cost - AD) x (2 / TOTAL Useful Life)
    - (2 / Useful Life) is called the declining balance rate, the 2 could be anything
- Activity Method (Cost - Residual Value) / Estimated Production x Actual Production
    - (Cost-RV)/Estimated Prod. is the **dep rate per unit**
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Impairment Test: Writing down the book value to collectible amount

- Cost Recovery Impairment Model (ASPE):
    1. Is carrying amount > undiscounted future cash flows? → Asset is impaired
    2. Record impairment loss = Carrying amount - Fair Value
    - **Note:** this cannot be reversed

- Rational Entity Impairment Model (IFRS)
    1. Carrying amount > recoverable amount (higher of FV less cost to sell and value in use) → record impairment loss
    2. Can reverse up to what the initial book value would have been had no impairment been recognized

Derecognition:

Chapter 12 - Intangible Assets & Goodwill

Recognition:

- Identifiable nonmonetary assets that lack physical substance

Initial Measurement:

- Measured at cost when **purchased outright**
- Internally Developed: costs can be **capitalized** when certain criteria are met
- Purchased as business combination: recognized at fair value
- Business combinations involving purchase of **net assets,** goodwill is **separately recognized**

Subsequent Measurement:

- Cost model
- Revaluation model → only when fair value is determinable

Impairment Test: Writing down the book value to collectible amount

- Limited-Life Intangibles
    - Cost Recovery Impairment Model (ASPE):
        1. Is carrying amount > undiscounted future cash flows? → Asset is impaired
        2. Record impairment loss = Carrying amount - Fair Value
        - **Note:** this cannot be reversed

    - Rational Entity Impairment Model (IFRS)

        1. Carrying amount > recoverable amount (higher of FV less cost to sell and value in use) → record impairment loss
        2. Can reverse up to what the initial book value would have been had no impairment been recognized
- Indefinite Life Intangibles
    - ASPE: Compare carrying amount with FV. If impaired, record the difference
    - IFRS: Carrying amount with recoverable amount
- Goodwill
    - ASPE: Compare carrying amount of CGUs (just all the other assets) with FV
    - IFRS: CGU compare with recoverable amount

Derecognition: