

# [A case study of a cruise ship](https://assignbuster.com/a-case-study-of-a-cruise-ship/)

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Examples of events that qualify and are specifically related to Smooth Sailings situation include: o Current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrated continuing losses associated with the use of a long-lived asset.

O A current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. Eased on these events Smooth Sailing’s cruise ship should be tested for recoverability.

In order to perform the recoverability test management must determine what assets and liabilities should be included in the asset group. O As defined by ASS 360-10-20, an asset group is the unit of accounting for a long- lived asset to be held and used, which represents the lowest level tort Witt identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. Of the Cruise Ship Net Working Capital Directly Attributed to Cruise Ship Total Value of the Asset Group $4. 6 million $0.

1 million $4. Million Since management is considering multiple operating scenarios all options must be considered in determining recoverability. O If alternative courses of action to recover the carrying amount of a longwinded asset (asset group) are under consideration or if a range is estimated for the amount of possible future cash flows associated with the keel course of action, the likelihood of those possible outcomes shall be considered Smooth Sailing operates one cruise ship, therefore the asset group includes this one ship and all cash flows that are associated with the ship should be considered when performing the recoverability test. Estimates of future cash flows used to test recoverability shall include only future cash flows directly associated with and that are expected to arise as a result of the use and eventual disposition of the asset Management needs to consider if, and how much, the potential foreclosure and extinguishing of debt will impact the cash flows used to perform the recoverability test. O If the asset group is tested for recoverability while it is classified as held and used, the estimates of future cash flows used in that test shall be based on the use of the asset for its remaining useful life, assuming that the disposal transaction will not occur.

In such a case, an undistorted cash flows recoverability test shall apply prior the disposal Eased on the FAST ASS guidance listed above, there should be no impact on cash flows for purposes of the recoverability test.

Contradicts SC reference above En a long lived asset is tested for recoverability, it also may be necessary to review depreciation estimates and methods. Any revision to the remaining useful life shall be considered in developing estimates of future cash flows used to test the asset for recoverability (360-10-35-22).

Management must determine the impairment loss (if any). Per FAST ASS guidance, an impairment loss shall be recognized only if the carrying amount of an asset group is not recoverable and exceeds its fair ‘ alee (360-10-35-17). Rhea first step in determining an impairment loss is calculating the undistorted expected cash flows of each option being noninsured and the probability of those cash flows for each applicable year. Rhea expected present value (IV) is then calculated based on those expected cash flows and compared with the carrying amount of the asset group.

If impairment loss is recognized, the adjusted carrying amount of the long lived asset shall be its new cost basis. The new cost basis shall be depreciated over the remaining useful life See appendix for calculation. If management decides to turn asset over to lender, the gain or loss recognized on the disposal shall be disclosed in the period component of income before extraordinary items (205-20-45-3). In which t occurs as a separate There is specific information that shall be disclosed in the notes to the financial statements in the period in which an Impairment is recognized (360-10-50-2).