Home computer fasb

Home Computer will discontinue its video monitor operations at the Seattle plant after the establishment of a replacement facility In Sacramento, California. Other component parts will continue to be manufactured at the Seattle facility. The company will scrap the equipment and " special interior building configuration assets" related to the video monitor operations since these assets do not have any continued use.

Management estimates that bringing the placement facility online will take 10 months. ; Management has determined that the video monitor operations (consisting of the equipment and the " special Interior building configuration assets") constitute the lowest level for which identifiable cash flows are, for the most part, independent of the cash flows of other assets and liabilities. ; The company estimates future cash flows from the video monitor operations will be $3. 5 million during the 10-month phase-out period. The present value of these cash flows, discounted at a rate commensurate with the risk involved, Is $3. Lion, which represents managements estimate of the fair value of the equipment and special interior building configuration assets. ; The current net book value of the equipment and the " special interior building configuration assets" used in the video monitor operations is $8 million. Scrap sales proceeds are expected to be Insignificant. ; The current net book value of the Seattle building is $1 5 million, which could be sold for $26 million at the end of the 10-month phase-out period. The present value of this amount is $24 million. Management has identified the " special Interior building configuration assets" as the most significant component asset from which the video monitor operations derive Required: ; How should Home Computer classify (for impairment testing purposes) the assets to be scrapped in the video monitor operations on March 31, 2002? ; Should Home Computer recognize an impairment charge for the video monitor assets? If an impairment charge is appropriate, calculate the amount. Home Computer Inc. Accounting Issue Should Home Computer recognize an impairment charge for the video monitor sets?

Alternatives Alternative 1 -? An impairment charge of $4. 8 million [$8. 0 – $3. 2 = $4. 8] should be recognized, representing the difference between the carrying amount of the video monitor asset group ($8 million) and the fair value of the asset group ($3. 2 million). Alternative 2 -? No impairment charge should be recognized because the combined undistorted cash flows of the building and video monitor assets exceeds the combined carrying amount of these assets. Common Literature for Alternative 1 and 2 (see support for each alternative below) Need to check for impairment:

Paragraph 8 of Statement 144 requires that a long-lived asset or asset group shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Paragraph 8 of Statement 144 states several of those examples. Conditions (b) and (f) of that paragraph, as stated below, are present for both the video monitor and the printer manufacturing asset groups. Accordingly, an impairment analysis must be performed. Conditions (b) and (f): b. A significant adverse change in the extent or manner in which a long-lived asset asset group) is being used or in its physical condition f.

A current expectation that, more likely than not, [footnote omitted] a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. Asset grouping: Under the impairment analysis prescribed by Statement 144, assets must be grouped using the following guidance in paragraph 10 of Statement 144: asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other sets and liabilities.

However, an impairment loss, if any, that results from applying this Statement shall reduce only the carrying amount of a long-lived asset or assets of the group in accordance with paragraph 14. Estimates of future cash flows used to test the recoverability of a long-lived asset group should be made for the remaining useful life of the asset group to the entity. Literature in Support of Alternative 1 Proponents of Alternative 1 believe that the two-step impairment test detailed in Statement 144 should be applied to the equipment and “ special interior building infatuation assets” used in the video monitor operations.

Management has determined that this grouping is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. The projected cash flows of this asset group should extend to the end of the 10-month wind-down period, as this is the life of the primary asset in the asset group. Accordingly, the total carrying value of the asset group is compared to the undistorted cash flows that will be generated by the asset group. Since the carrying value of $8 million exceeds he projected undistorted cash flows of $3. 5 million, an impairment loss must be recorded.

This loss is measured as the difference between the carrying value of the assets and the estimated fair value of the assets, or $4. 8 million [$8. 0 – $3. 2 = $4. 8]. While the Seattle building clearly contributes to the cash flows of the video monitor operations, the building also houses numerous other operations. Therefore, the building is analogous to a headquarters facility that benefits multiple asset groups and cannot be identified with any specific group of assets and liabilities. The Seattle facility should not be included in the asset group when performing the impairment test.

Literature in Support of Alternative 2 Proponents of Alternative 2 believe comparing the cash flows from the video monitor operations to the carrying value of the equipment would be improper because the cash flows are generated from the combined productivity of the video monitor assets and the building in which such assets reside. Proponents of this alternative believe the combined cash flows of the building and the video monitor assets should be imparted to the combined carrying amount of the building and the video monitor assets since this is the lowest level at which cash flows are largely independent of other assets and liabilities.

Under this approach, the combined cash flows of $3. 5 million from future operations and $26 million from a sale of the building ($29. 5 million total) are in excess of the $23 million [$8. 0 + $15. 0 = $23. 0] combined carrying amount of the building and equipment. Therefore, the carrying amount of the assets is recoverable, and no impairment loss is indicated. Alternative 1 was determined to be the appropriate solution.