

# IMPAIRMENT OF FINANCIAL ASSETS

## CASE No. 1

Entity A at the beginning of 2006 originates a five-year loan for P10,000 that has been a stated interest rate of 7% to be received at the end of each year and a principal amount of P10,000 to be received at maturity. The original effective interest rate is also 7%. At the beginning of 2010, Entity A determines that there is objective evidence of impairment due to significant financial difficulties of the borrower and estimates that remaining estimated future cash flows are P5,000 instead of P10,700 (Le, interest for 2010 for P700 and principal of P10,000)

1. What is the present value/recoverable amount of receivables after impairment?
2. What is the amount of impairment loss?
3. How much is the interest income at December 31, 2010?

## CASE No. 2

At January 1, 2006, RCA Company had a receivable from DYC Company of P400,000 that has been outstanding for quite some time. Initial investigation revealed that DYC Company is in deep financial dilemma. At present DYC Company is unable to settle all outstanding obligations but further investigation revealed that KFC Company is taking over to run and operate the business affairs of DYC Company.

However, KFC Company is more than willing to assume only 75% of DYC Company's financial obligations and by the end of 2007, all the assumed financial obligations of DYC Company will be settled, As of December 31, 2006 RCA Company expects to collect P300,000 that is due from DYC Company. As of December 31, 2006 the prevailing rate of interest for a similar financial asset is 14%.

**Question 1.** What amount should RCA report in its December 31, 2006 balance sheet involving its accounts receivables?

**Question 2.** What amount of bad debt/impairment loss should RCA Company recognize related to its accounts receivable in 2006?