

Impairment of Investments in Available-for Sale Securities; Reversal of Impairment

A. Assume that X'OR Corporation purchases the following equity securities for investment purposes during 2005:

<i>Security Description</i>	<i>Acquisition Cost</i>	<i>Fair Value at Year-end</i>
1,000 shares of A ordinary shares	P 69,000	P 74,000
1,000 shares of B ordinary shares	148,500	177,500
2,000 shares of C preference shares	250,000	219,000

Management of X'OR Corporation designated the A and B ordinary shares investments as being for trading purposes, while the C preference shares were designated as long-term investment and will thus be categorized as available-for-sale.

The entries to record the purchases are:

The entries to adjust the investment accounts at December 31, 2005 are:

B. Supposing that on January 1, 2006, new information comes to X'OR Corporation regarding the viability of C Corporation. It is determined that the decline in C preference stock is probably not a temporary one, but rather is an impairment of the asset.

The entry to recognize the investment's permanent impairment is:

C. Assume further that in March 2006, further information comes to management's attention which now suggests that the decline in C preference shares had indeed been only a temporary decline; in fact, the value of C shares now rises to P224,000. There is no evidence of any specific event after the date of the impairment that is responsible for this recovery in value.

PAS 39, paragraph 69 states that

"Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss."

The entry to report air value changes is:

It will be noted that this increase in value is not recognized as income since the investment is still considered to be available-for-sale. Even though the previous decline in C shares was charged against current earnings, because judged at the time to be permanent impairment in value, the recovery is not recognized as income. Rather the change in value be included in the statement of

changes in equity and shown in an additional equity account.