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Impairment Practices of Selected Publicly-Listed Companies in the Philippine Mining Industry

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As evidenced by new accounting standards, the advent of harmonization of accounting standards has caused a shift from historical basis accounting to fair value accounting. A bigger impact of this shift is manifested through revaluations and impairment. But recent events that concern complexities associated with the practical application of this standard have surfaced causing many companies to not full comply with its provisions. This study, therefore, attempts to investigate the compliance of ten selected companies belonging to the mining industry with provisions of PAS 36; and to determine existing impairment practices in the mining industry. Results reveal that selected companies belonging to the mining industry were not able to fully comply with the specific provisions of PAS 36. Implications for stakeholders are discussed and areas for future research are offered.

Keywords: Impairment practices, accounting standards, generally accepted accounting principles

INTRODUCTION

Generally accepted accounting principles primarily center on recognition, measurement or valuation, and disclosures of specific accounts in the financial statements. These principles prescribe the procedures that an entity applies to ensure uniformity of treatment of accounts across different industries;, therefore, ensuring, as well, uniformity in designing procedures to examine management assertions on the part of the auditor.

The recent financial collapse of Enron and other corporate powerhouses, as well as the demise of accounting firm Arthur Andersen, brings into the picture the harmonization of accounting standards to restore integrity and credibility to the accounting profession. As a result, existing accounting standards were redefined and modified. A number of new standards also came out to cater to specific accounts and even to specific industries.

International Accounting Standards (IAS 36) on *Impairment of Assets* was among the several IAS that came out and was adapted to the Philippine setting. This standard, titled Philippine Accounting Standard 36 (PAS 36), focuses on accounting for impairment of assets, both tangible and intangible and ensures that assets are carried at no more than the recoverable amount. In the event that the recoverable amount of the asset is more than the carrying value, impairment should be appropriately recognized.

The concept of impairment has its roots in the radical shift from the cost principle of recognizing assets to the fair value principle, the former being more reliable but the latter being more relevant.

Recent developments in technology and significant events in business have repositioned the perspective of decision-makers in terms of accounting information. These, together with recent regulatory pronouncements and the competition, have demanded the relevance characteristic of accounting information rather than reliability. As a result, it has become noticeable that the new accounting standards have been crafted by standard-setting bodies with utmost regard to fair value accounting.

The Philippines has had a long, well-established history of production from its mines. As such, it can be inferred that companies belonging to the mining industry have long been following the cost principle in accounting for its tangible and intangible assets. PAS 36 took effect on March 2004 and full compliance with the provisions of the said standard is expected for the calendar year of 2006.

This study, therefore, attempts to investigate compliance of ten selected companies belonging to the mining industry with regard to the provisions of PAS 36 on impairment of assets; and to determine existing impairment practices in the mining industry.

Statement of the Problem

What is the extent of compliance of selected publicly-listed companies in the mining industry with regard to the provisions of PAS 36?

Objectives of the Study

The specific research objectives of this study are: (1) to identify how the mining industry accounts for impairment of assets, both tangible and intangible; (2) to evaluate the compliance of the mining industry with the specific provisions of PAS 36, the generally accepted accounting principle for impairment of assets in the Philippines; and (3) to identify key areas of further research on the subject.

Scope and Limitations

This study focuses solely on the selected publicly-listed companies belonging to the mining industry, all of which submitted full disclosure requirements to the SEC for the calendar year 2006. This study is descriptive in nature; it analyzes contents of the 2006 annual reports (containing audited financial statements) of the selected companies.

Significance of the Study

The results of this study will be significant to the following stakeholders:

1. *Financial Reporting Standards Council (FRSC)* – The FRSC can utilize the results of this study to review provisions in the existing standards that may not be applicable to the Philippine setting, specifically in the mining industry.
2. *Government regulatory agencies* – Philippine government regulatory agencies such as the Securities and Exchange Commission (SEC) can use the information to determine whether disclosure requirements for other industries may not be applicable to mining industry.
3. *The academe* – Aside from using this study as a baseline for future academic research, this study may be used as a guide for understanding and interpreting provisions in the standards; and thus translate these standards, with regard to actual industry application, effectively to students.
4. *Investors* – Investors will be kept informed as to how tangible and intangible assets are appropriately carried at the books of the investee; therefore, they can be provided with a sound basis for evaluation of current and future investments in the mining industry.

INTERNATIONAL ACCOUNTING STANDARDS AND THE CONCEPT OF IMPAIRMENT

The move towards harmonization of international accounting practices began as early as 1904. The first documented international accounting congress was held in St. Louis, Missouri in the United States. In this congress, accounting issues were mainly practice-oriented (Chandler, 1992).

Different authors have defined accounting harmonization in different ways. Some have complicated the whole concept, by attempting to substitute harmonization with standardization, with the implication of making the process the same, rather than making it more compatible (Forzeh & Nting, 2001). In practice, harmonization of accounting tends to mean the process of increasing the compatibility of accounting practices by setting bounds for the degree of variations (Nobes, 1992).

Several pressure groups have had great influence on the entire process of accounting harmonization, both directly and indirectly. Although the various groups have diverse intentions, it has, however, been assumed that their main intention is to get information to help them formulate policy towards large corporations, such as multinational firms. It is important to mention that in identifying the various pressure groups, one sees the benefits the assumed pressure groups will get from accounting harmonization (Forzeh & Nting, 2001).

The quest to acquire a set of uniform standards is behind the promulgation of the International Financial Reporting Standard (IFRS) by the International Accounting Standards Board (IASB). IFRS is making an impact on the international arena. It has been endorsed by the International Organization of Securities Committees and mandated for consolidated financial reporting in the European Union (Zarb, 2006).

The institutional environment has had a meaningful influence on the financial environment. The extent of government involvement has been very high in countries with a tradition of detailed prescriptive legislation (Forzeh & Nting, 2001).

According to Saudagaran and Diga (2000), legislation plays two important roles in shaping the institutional environment. Firstly, laws often specify the main criteria for preparing financial reports to enhance the true and fair view. Secondly, legislation delegates responsibility to a government agency empowered to devise rules it considers appropriate for achieving the objectives of such legislation. Depending on the regulatory intent, different governmental agencies may take charge of the formulation of specific financial reporting requirements; for instance, company registrars for corporate governance aims, securities regulators for capital market, and taxation authorities for tax objectives. The information governments require of corporations varies and is influenced by, among other things, the extent of government planning and regulation. Governments assume taxation requirements have a significant impact on accounting and, as such, need to get involved in accounting harmonization in order to fulfill such requirements. Revenue authorities, for example, have their work complicated when dealing with companies that have foreign branches or subsidiaries.

In 2000, the Philippine Securities and Exchange Commission issued a primer regarding the initial adoption and implementation of IAS which states that the onset of cross-border securities trading, investments, and similar transactions in this age of globalization has necessitated the harmonization of financial reporting requirements. The need has been reinforced by evident practical problems of interpretation, enforcement, and understanding of current national standards. Moreover, the same primer stated that the use of high quality, and globally adopted financial reporting structures based on international accounting standards will promote full disclosure and transparency; and likewise facilitate the delivery of financial information that is comparable and reliable, not only across companies but across countries as well.

For financial information to be considered as useful and timely, it should be relevant, reliable, comparable, consistent, and transparent. One way to achieve transparency is to prepare information in accordance with a robust, high-set of generally accepted accounting principles (Zarb, 2006).

PAS No. 36

The objective of PAS 36 is to ensure that an entity's assets are carried at no more than their recoverable amount. This standard also specifies when an entity should reverse an impairment loss, and prescribes disclosures. PAS 36 applies to inventories, assets arising from construction contracts, deferred tax assets, assets arising from employee benefits, and assets classified as held for sale or included in a disposal group that is classified as held for sale.

An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. However, irrespective of whether there is any indication of impairment, an entity shall test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with the recoverable amount.

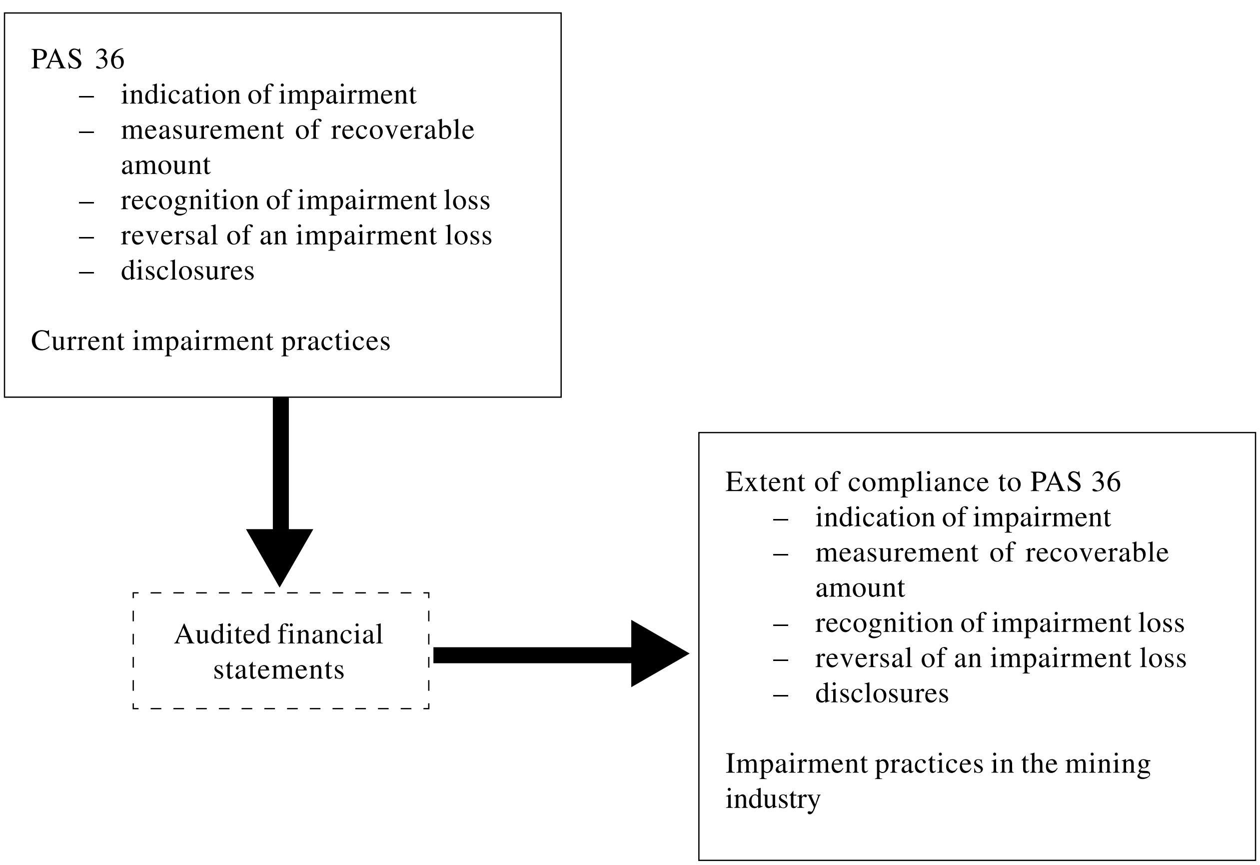
There are three main accounting issues to consider, namely: (a) indication of possible impairment, (2) measurement of the recoverable amount, and (3) recognition of impairment loss.

The application of PAS 36 is proving to be a challenge, due, in particular, to the judgments and estimates that have to be made: in assessing whether there are indications of impairment, in identifying "cash-generating units" and in determining the recoverable amount of assets (Ernst &Young, 2007).

FRAMEWORK OF ANALYSIS

The framework of analysis used for this study is PAS 36 *Impairment of Assets*. The components of this framework include the following: (1) indication of impairment; (2) measurement of recoverable amount; (3) recognition of impairment loss; (4) reversal of an impairment loss; and (5) disclosures.

Figure 1. **Framework of analysis**



Impairment is a fall in the market value of an asset so that its "recoverable amount" is now less than its carrying value in the balance sheet (Valix, 2006). An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through the use or sale of the asset. The carrying amount is the amount at which an asset is recognized in the balance sheet after deducting any accumulated depreciation and accumulated impairment loss. If this is the case, the asset is described as impaired and PAS 36 requires the entity to recognize an impairment loss. This standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

Indication of impairment. In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications (not exhaustive):

External sources of information:

1. Significant decrease or decline in the market value of the asset as a result of passage of time or normal use;
2. Significant change in the technological, market, legal or economic environment of the business in which the asset is employed;
3. An increase in the interest rate or market rate of return on investment which will likely affect the discount rate used in calculating the value in use;
4. The carrying amount of the net assets of the reporting enterprise is more than its market capitalization, or the company stock is below book value.

Internal sources of information:

1. Evidence of obsolescence or physical damage of an asset;
2. Significant change in the manner or extent in which the asset is used with an adverse effect in the enterprise;
3. Evidence that the economic performance of an asset will be worse than expected.

Measurement of recoverable amount. After establishing evidence that an asset has been impaired, the next step is to determine its recoverable amount in preparation for the recognition of an impairment loss. The recoverable amount of an asset is its fair value less cost to sell or value in use, whichever is higher. Fair value less cost to sell (net selling price) is the amount obtainable from the sale of an asset in arm's length transaction between knowledgeable, willing parties, less costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit. A cash-generating unit is the smallest identifiable group of assets that generate cash inflows that are largely dependent of the cash inflows from other assets or group of assets. Value in use is measured as the present value or discounted value of future cash flows (inflows minus outflows) expected to be derived from an asset.

Recognition of impairment loss. The impairment loss shall be recognized immediately by reducing the asset's carrying amount to its recoverable amount. The impairment loss is recognized in profit or loss and classified as other expense

Reversal of an impairment loss. If the recoverable amount of an asset that has previously been impaired turns out to be higher than the asset's current carrying value, the carrying amount of the asset should be increased to its new recoverable amount. However, the standard further provides that the increased carrying amount of an asset due to reversal of an impairment loss shall not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. The reversal of an impairment loss shall be recognized immediately as income in the income statement. But any reversal of an impairment loss on a revalued asset shall be treated as a revaluation increase, crediting to income to the extent that it reverses a previous revaluation decrease, and any excess credited directly to revaluation surplus.

Disclosures. An entity shall disclose the following for each class of assets: (a) the amount of impairment losses recognized in profit or loss during the period, and the line item(s) of the income statement in which those impairment losses are included; (b) the amount of reversals of impairment losses recognized in profit or loss during the period, and the line item(s) of the income statement in which those impairment losses are reversed; (c) the amount of impairment losses on revalued assets recognized directly in equity during the period; and (d) the amount of reversals of impairment losses on revalued assets recognized directly in equity during the period.

Moreover, an entity shall disclose the following for each material impairment loss recognized or revered during the period for an individual asset, including good will, or a cash-generating unit: (a) events and circumstances that led to the recognition or reversal of the impairment loss; (b) the amount of the impairment loss recognized or reversed; (c) nature of the asset or a description of the cash-generating unit; (d) whether the recoverable amount of the asset is its fair value less costs to sell, or its value in use; (e) if recoverable amount is fair value less costs to sell, the basis used to determine fair value less costs to sell; and (g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

Estimates used to measure recoverable amounts of cash-generating units containing good will or intangible assets with indefinite useful lives need also be disclosed.

THE PHILIPPINE MINING INDUSTRY

The Philippines ranks among the world's top ten in the production of chromite, copper, gold, and nickel. For much of the last quarter of the 20th century, mining was slowed by the effects of low international metal prices accompanied by high operating and production costs, low foreign investment, political instability, labor problems, and natural disasters such as earthquakes, floods, and landslides. Nevertheless, the Philippines was estimated to rank second to Indonesia in the Asian-Pacific region in terms of mineral prospectivity and resources (Resource Information Unit as cited in Lyday, 2000).

In 2000, the mining industry was estimated to have contributed more than one percent to the country's gross domestic product and generated about USD 1 billion for the economy (Resource Information Unit as cited in Lyday, 2000). The mineral industries of the Philippines employed an estimated 400,000 people, or about 1.5 percent of the labor force. Of that total, an estimated 300,000 workers were engaged in small-scale mining and panning activities, chiefly in artisanal gold workings. The metals sector accounted for an estimated 44 percent of the industry's production value and nearly 100 percent of mineral export earnings. The industrial mineral sector, which was dominated by the production of limestone for cement manufacture and marble and sand and gravel for construction uses, brought in the remaining non-fuel mineral production value (De Vera as cited in Lyday, 2000).

Mining in the Philippines is regulated by the 1995 Mining Act, which is administered by the DENR. The act and its implementing rules and regulations provide three major forms of mining rights: an exploration permit (EP); a mineral agreement (mineral production sharing, co-production sharing, or joint venture); and a financial or technical assistance agreement (FTAA). EPs and FTAAs are avenues of entry for foreign companies to have up to a 100 percent right of ownership. An EP is limited for a maximum period of eight years for metals, by which time it must be converted to either a mineral agreement or an FTAA (Chamber of Mines of the Philippines as cited in Lyday, 2000).

Mineral agreements are limited to Filipino corporations with a minimum of 60 percent Filipino ownership and a maximum of 40 percent foreign ownership. FTAAs are 25-year contracts that require a minimum investment commitment of USD 50 million for infrastructure and mine development. Moreover, the government may offer a range of additional incentives under the act, such as zero capital duty, zero value-added tax, and a tax holiday. In return, the Department of Environment and Natural Resources (DENR) expects mining to be sustainable, and socially and environmentally responsible. Through 2000, 59 EPs that covered 403,616 hectares were issued, and more than 400 applications for 3.6 million hectares were pending. The DENR required the submission of an environmental protection and enhancement program, a social development and management program, a final mine rehabilitation and decommissioning plan, an environmental monitoring audit, and financial guarantees for each new project (Resource Information Unit as cited in Lyday, 2000).

In October 2000, the DENR requested that the Supreme Court clarify legal and constitutional challenges to the Mining Act and the Indigenous Peoples Rights Act. The DENR perceived the challenges as one of the main reasons that foreign companies were not investing in the Philippine mining industry (Mining Journal as cited in Lyday, 2000).

PRESENTATION AND ANALYSIS OF DATA

The ten selected publicly-listed companies (actual company names withheld) were profiled in terms of: their external auditor, type of audit opinion, asset base, and amount of provisions for impairment. Using the International GAAP Disclosure Checklist 2006 devised by Ernst & Young, all accounts and disclosures concerning impairment of assets in audited financial statements of ten selected publicly-listed companies were analyzed with regards to compliance. Moreover, impairment practices of each publicly-listed company were also reviewed, noted, and summarized.

Table 1
Profile of Ten Selected Publicly-Listed Companies in the Philippine Mining Industry

Company name	Type of audit opinion	Asset base as of 12/31/2006 (in thousands)	Provisions for impairment for 2006 (in thousands)
Company A	Unqualified	P8,368,096	P7,931
Company B	Unqualified	464,440	None
Company C	Unqualified	1,675,110	50,007
Company D	Unqualified with explanatory paragraph	1,117,434	None
Company E	Unqualified with modified wording	8,016,069	None
Company F	Unqualified	6,511,193	Inappropriately classified
Company G	Unqualified with explanatory paragraph	2,996,702	Inappropriately classified
Company H	Qualified scope, additional paragraph, and qualified opinion	827,883	3,359
Company I	Unqualified with explanatory paragraph	2,717,610	22,998
Company J	Unqualified	1,046,116	None

Eight out of ten companies were audited by SGV & Co (SGV) and the remaining two were audited by Manabat Sanagustin & Co. (Manabat) and Pelayo Teodoro Santamaria & Co. (Pelayo). Both SGV and Manabat belong to the top five auditing firms in the country. Nine companies were given an unqualified audit opinion, including three with explanatory paragraphs and one with modified wording. The reasons for explanatory paragraphs were the companies' ability to continue as a going concern; while the reason for the modified wording was the changing of opinion for the previous year's financial statements. No explanatory paragraph referred to impairment of assets. Only one was given a qualified scope and opinion with additional paragraph. This was due to constraints that restricted the auditor to perform additional procedures on an investment account. Moreover, the explanatory paragraph was due to the company's difficulty in meeting obligations to creditor banks, which may cast significant doubt about the company's ability to continue as a going concern.

Total assets of companies range from Php 464 million to Php 8.3 billion. Four companies provided provisions for impairment loss ranging from Php 3.4 million to Php 50 million; two companies were unable to appropriately classify impairment losses; and four companies did not have any provision for impairment losses.

Compliance with PAS 36

Table 2
Summary of Findings as to Compliance with PAS 36 of Ten Selected Publicly-Listed Companies in the Philippine Mining Industry.

Company	Findings
Company A	Impairment losses on other assets (properties), receivables, and mine exploration costs were disclosed; but the events and circumstances that led to the recognition of the impairment losses and the basis for computing impairment losses were not disclosed.
Company B	The management believes that no asset is impaired.
Company C	Impairment losses on property, plant, and equipment and receivables were disclosed; but the events and circumstances that led to the recognition of the impairment losses and the basis for computing impairment losses were not disclosed.
Company D	There were no impairment losses for 2006; but there was an impairment loss on loans and receivables for 2005. Although the discount rate for the computation of the value in use of 10% in 2006 was appropriately disclosed, the events and circumstances that led to the recognition of the impairment losses and the basis for computing impairment losses were not disclosed.
Company E	Comparative income statement showed reversal of impairment loss in the year 2005; but the Company failed to disclose the events and circumstance that led to the reversal and the basis for computing the amount of reversal. Further, impairment losses on property, plant, and equipment, deferred mine exploration costs, and receivables were disclosed; but the events and circumstances that led to the recognition of the impairment losses and the basis for computing impairment losses were not disclosed.
Company F	The Company failed to recognize write-off of property, plant, and equipment as impairment even if the basis used was for impairment. Moreover, the events and circumstances that led to the recognition of the impairment losses and the basis for computing impairment losses were not disclosed.
Company G	The Company failed to recognize write-off of property, plant, and equipment as impairment even if it the treatment used was that for impairment. Moreover, the events and circumstances that led to the recognition of the impairment losses and the basis for computing impairment losses were not disclosed.
Company H	Impairment losses on property, plant, and equipment and deferred exploration costs were disclosed; but the events and circumstances that led to the recognition of the impairment losses and the basis for computing impairment losses were not disclosed.
Company I	Impairment losses on property, plant, and equipment, investment property, and receivables were disclosed; but the events and circumstances that led to the recognition of the impairment losses and the basis for computing impairment losses were not disclosed.
Company J	The management believes that no asset is impaired.

With regard to the companies' compliance with PAS 36: eight companies disclosed impairment of assets either for 2005 or both 2005, and 2006; and two companies believed that no asset had been impaired. But this does not necessarily mean full compliance with PAS 36.

With regard to indication of impairment, the eight companies that disclosed impairment of assets failed to disclose events and circumstances that led to the recognition of the impairment loss. This was mainly because of the difficulty of obtaining internal and external evidence of impairment. As a matter of conservatism, the companies might have deemed it necessary to consider impairment, even though no tangible basis to support that was available.

As regards measurement of recoverable amount, the eight companies that disclosed impairment of assets failed to provide a substantial basis with regards to measurement of recoverable amount; although one company disclosed the discount used in the computation of value in use. This was mainly because of the difficulty in obtaining assets fair value and costs to sell and determining the value in use. While it is true that the current accounting standards of favoring fair value accounting over historical cost may provide a more relevant and timely valuation, the burden of determining fair value may cast doubts on its being cost-effective.

With regard to impairment loss, six companies appropriately reflected impairment as a one-line item in its income statement; while two companies inappropriately classified impairment as write-offs although the basis used was that for impairment. This was mainly because of the companies' negligence in interpreting specific provisions of PAS 36.

As regards reversal of an impairment loss, only one company disclosed reversal, but this reversal was made for the previous year.

With regard to impairment of intangible assets, three companies disclosed impairment of deferred mine exploration costs; but they failed to disclose the events and circumstances that led to the recognition of impairment losses and the basis for computing impairment losses. This was mainly because of difficulty in obtaining tangible internal and external evidence of impairment, and difficulty in associating them to a cash-generating unit.

Existing Impairment Practices

Table 3
Summary of Existing Impairment Practices of Ten Selected Publicly-Listed Companies in the Philippine Mining Industry

Company	Existing practices on impairment
Company A	✓ Policy on impairment of receivables, available-for-sale securities, investment in associates.
	✓ Policy on impairment of property, plant, and equipment and mine exploration costs.
Company B	✓ Policy on impairment of property plant and equipment.
Company C	✓ Policy on impairment of receivables and securities.
	✓ Policy on impairment of property, plant, and equipment.
Company D	✓ Policy on impairment of receivables.
	✓ Policy on impairment of property, plant, and equipment and deferred exploration and development costs.
Company E	✓ Policy on impairment of loans and receivables, held-to-maturity investments, and available-for-sale investments.
	✓ Policy on impairment of property, plant, and equipment, deferred mine and oil exploration costs or cash-generating unit.

Company	Existing practices on impairment
Company F	✓ Policy on impairment of available-for-sale securities.
	✓ Policy on impairment of intangible assets with indefinite useful lives.
	✓ Policy on impairment of property, plant, and equipment, and intangible assets such as mining rights acquisition cost and software cost
Company G	✓ Policy on impairment of loans and receivables and available-for-sale securities.
	✓ Policy on impairment of property, plant, and equipment.
Company H	✓ Policy on impairment of investment in associates, property and equipment and deferred exploration costs.
Company I	✓ Policy on impairment of receivables, available-for-sale securities and property, plant, and equipment.
Company J	✓ Policy on impairment of property and equipment.

The companies that indicated impairment practices primarily disclosed practices that concern impairment of financial and non-financial assets. They provided polices on the following financial assets: loans and receivables; available-for-sale and held-to-maturity securities; and investments in associates. Likewise, the companies also provided policies on the following non-financial assets: property, plant, and equipment; investment property; and intangible assets such as deferred mine exploration costs and mining rights acquisition costs by directly attributing them to a cash-generating unit.

CONCLUSIONS

A major observation about these companies is that they have existing policies concerning impairment of assets but all of them failed to fully comply with them. In terms of recognizing impairment losses as a one-line item in the income statement, only one company inappropriately classified it. Nevertheless, as for conservatism, they were able to reflect this in the income statement.

As for indication of impairment and determining the recoverable amount, all of the companies were not able to comply with these requirements. Internal and external sources of indications of impairment seem to be difficult to obtain, thereby the need to put an industry structure for this. Fair values less costs to sell are also difficult to obtain and are mostly subjective. Companies need to consider the absence of a binding sale agreement of these assets, as well as their active market. Values in use are also difficult to obtain since an appropriate discount rate and a more objective assessment are needed here. Companies may need to hire specialists to do this, which requires additional expense.

As regards impairment practices, the following policies exist in the sample companies that belong to the mining industry:

1. The companies assess whether objective evidence of impairment exists individually for financial assets that are individually significant; and individually or collectively for financial assets that are not individually significant.
2. The companies assess whether there are indications of impairment on their long-lived non-financial assets or cash-generating unit, at least on an annual basis.
3. If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial

asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account.

4. The determination of impairment loss for investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In applying this judgment, the companies evaluate the financial health of the issuer. In the case of available-for-sale equity instruments, the companies expand their analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology, and other factors that affect the recoverability of the companies' investments.
5. The carrying values of property, plant, and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Determining the value of property, plant, and equipment, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the companies to make estimates and assumptions that can materially affect their consolidated financial statements.
6. Intangible assets with indefinite useful lives are tested for impairment annually as of December 31, either individually or at the cash-generating unit level, whichever is deemed appropriate.
7. Recoverable amounts are estimated for individual assets, if it is not possible, for the cash-generating unit to which it belongs.
8. Reversals to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. If revalued, the reversal is treated as revaluation increase.

RECOMMENDATIONS

The results of this study reveal that selected companies belonging to the mining industry were not able to fully comply with the specific provisions of PAS 36. Although this study only focused on the mining industry, the following recommendations are being offered:

1. The Financial Reporting Standards Council (FRSC) must review PAS 36 with regard to the feasibility of full compliance to the provisions therein. Because of the inherent constraints regarding the readily available internal and in particular external sources of indications of impairment, determination of fair values less costs to sell, and value in use, the Council may want to add guidelines and interpretation statement with specific examples to illustrate some of the requirements of the standard.
2. Government regulatory agencies such as the Securities and Exchange Commission (SEC) may want to provide amendments on existing disclosure requirements for compliance to become more feasible. SEC may also spearhead a task group to assist companies in compiling information about indications of impairment, fair values less costs to sell, and value in use more readily available and structured.
3. The academe should bring this issue up for discussion in the classroom so as to stimulate and encourage critical thinking among students, as well as provide topics for upcoming theses.
4. Investors may want to extend their interest in the investee's initiatives and advocacies to really determine more

realistic recoverable amounts of assets, thereby ensuring maximization of shareholder's value.

5. And for areas for further research, the scope of this study may be extended to include more companies that belong to the mining industry or to other industries largely affected by impairment issues such as manufacturing and information technology.

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