

IMPAIRMENT ACCOUNTING PRACTICE AND FINANCIAL REPORTING REGULATORY SUPPORT IN NIGERIA: THE VIEW OF FINANCIAL REPORTING ACCOUNTANTS

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ABSTRACT

The literature shows that impairment accounting is complex. This study examines impairment accounting practice in Nigeria, its complexity perception and the support from Financial Reporting Council of Nigeria (FRCN) using a survey research design. Data were collected through a survey of 60 financial reporting accountants, across industries. The data were analysed using descriptive statistics and simple regression analysis. Three hypotheses were tested. Overall result shows impairment accounting practice in which recoverable amount is "fair value less cost to sell" and a disposition towards immediate recognition of impairment loss. Internal capacity to engage in impairment testing exists as opposed to outsourcing. There is a perception of complexity of impairment accounting practice and an expectation that FRCN provides support to financial reporting accountants. This support is however not provided. The study therefore recommends issuance of guidance by FRCN to assist these accountants develop capacity to handle individual IFRS implementation in Nigeria.

Key words: Accountants, impairment accounting, perception, regulatory support, financial reporting

INTRODUCTION

The adoption of International Financial Reporting Standards (IFRS) in emerging markets continues to be a topical issue within practitioners and accounting academic researchers, with some questioning its suitability (see for example Hopper, Lassoud, & Soobaroyene, 2017; Perera, 2012; Alp & Ustundag, 2009). Prior research has addressed adoption challenges within emerging markets in general (see for example, Tyrrell, Woodward & Rakhimbekova, 2007; Alp & Ustundag, 2009; Chand, Patel, & Patel, 2010; Hopper, et. al., 2017). So, we know about challenges such as lack of qualified financial accountants and auditors who are IFRS experts, lack of funds on the part of companies and lack of infrastructural facilities necessary for effective implementation of IFRS (UNCTAD, 2007; Alp & Ustundag, 2009; Chand, Patel, & Patel, 2010; Perera, 2012; Hopper *et al.*, 2017). For example, Perera (2012) identifies inadequate qualified accountants and difficulty in exercising professional judgement in principle-based accounting standards as a challenge with the adoption of IFRS in emerging markets.

However not many studies have addressed challenges of day to day practice relating to specific standards. Thus, we know little about specific challenges relating to individual IFRSs. Exception to the latter are few studies that have focussed on individual standards to address their specific implementation issues such as measurement, recognition and disclosures (see for example Petersen & Plenborg, 2010; Carlin and Finch, 2009; Avallone & Quagli, 2015; Mazzi, Liberatore & Tsalavoutas, 2016; Huikku, Mouritsen & Silvola, 2017). Focusing on specific standards helps shed more light on this stream of studies that address challenges of IFRS practice in emerging market.

It is generally agreed that information provided by impairment accounting helps reduce information asymmetry between managers and shareholders (Schatt, *et al.* 2016; Healey & Palepu, 2001). The argument here is that the information content of impairment accounting, helps convey to investors, private information. To this end, Mazzi, *et. al.* (2016) argued that impairment disclosures constitute prospective information that significantly reduces information risk leading to a reduction in cost of capital (see also Francis, *et al.* 2008). This is enhanced where the impairment accounting practice leads to objectively determined figure that is faithfully represented in the financial statement (IASB, 2010).

It has been argued that impairment accounting practices may result in subjective managerial judgements and assumptions leading to subjective impairment figures as a result of complexity of the standard (Glaum, *et. al.*, 2013; Mazzi, *et. al.*, 2016). In relation to IAS 36, such subjective managerial judgements and assumptions may relate to identification of assets that are impaired, the determination of recoverable amounts, fair value and other variables that serve as input in the impairment testing (Petersen & Plenborg, 2010; Kval, 2010). It is stated that as practices underlying the measurement of recoverable amount are difficult to verify, there may be challenges with impairment accounting (see Glaum, *et. al.*, 2013). Thus, faithful representation may be hampered by accounting practices that do not lead to determination of true asset impairment figure. Therefore, gaining insights into accounting practices around impairment of assets helps reveal aspects of challenges faced in IFRS implementation within emerging markets. The literature shows that limited evidence on this exists within the emerging markets, especially within the Nigerian market. This enables comparison to be made with existing evidence from studies based on developed countries (see Petersen & Plenborg (2010); Mazzi, *et. al.* 2016).

Consequently, the objective of this study is to examine impairment accounting practice, its complexity perception and the financial reporting regulatory support for preparers, drawing from the views of financial reporting accountants in Nigeria. Financial reporting accountants in this context are defined to include accountants, financial controllers and Chief Financial Officers (CFOs) who are in charge of financial reporting in their organisations. To achieve the research objective, the following research questions were addressed:

- (1) How do financial reporting accountants engage in impairment accounting practices in Nigeria?
- (2) What is the perception of financial reporting accountants on the complexity of impairment accounting?
- (3) What support is provided by the financial reporting regulatory authority to guide accountants in impairment accounting in Nigeria?

Nigeria is seen as the biggest market for IFRS in Africa as all entities (both listed and unlisted) are mandatorily required to adopt IFRS in the preparation and presentation of their financial statements (IFRSEF, 2020, Osinubi, 2020). By exploring impairment accounting practices in Nigeria, the study provides insight into the challenges facing emerging markets in the day to day IFRS accounting practice and helps to make recommendations for improved IFRS practice and regulation in Nigeria. By considering the financial reporting regulatory support available to preparers, we shed light on the role expected of regulators to help preparers overcome part of the challenges of IFRS implementation in

emerging market. This is because emerging markets have been associated with challenges in IFRS implementation (Alp & Ustundag, 2009; Perera, 2012; Hopper *et al.*, 2017).

The study, therefore, surveyed financial accountants, financial controllers and CFOs (henceforth financial reporting accountants) who are responsible for financial reporting in their organisations. The organisations involved included listed and non-listed companies since both are mandatorily required to adopt IFRS in Nigeria. The survey questionnaires were first analysed using simple statistical analysis supported by three simple regression analysis based on three hypotheses. The hypotheses centre on willingness to write off impairment loss immediately, complexity perception of impairment accounting practice and support from financial regulatory authority. The significance of the results of the regression analysis was tested using Analysis of Variance (ANOVA).

On the first research question, the analysis provides evidence of impairment accounting practice in which recoverable amount is "fair value less cost to sell" and there is a disposition towards immediate recognition of impairment loss, with internal capacity to engage in impairment testing as opposed to outsourcing. It is not clear why fair value less cost to sell is the dominant method of determining recoverable amount given that fair value is an issue in most emerging markets. It is also surprising that there is disposition for immediate write off of impairment loss given evidence in prior literature of earnings management using impairment (non)/recognition. On the second research question, perception on the complexity of impairment accounting is "undecided", which suggests uncertainty of how to deal with impairment loss determination. This finding is supported by the hypothesis tested and is an indication of not knowing what to do, thereby confirming complexity. Ultimately, willingness to immediately recognise impairment loss without a desire to defer it is meaningless if accurate figure cannot be determined. Theoretically, this compounds information asymmetry and underscores the need for capacity to implement IFRS in emerging economies. It questions evidence of internal capacity to engage in impairment accounting provided in the study as those charged with impairment accounting, after all, are not sure of what to do. Finally, on the last research question, while there is expectation for the financial reporting regulator to provide support to guide preparers on impairment accounting, there is no such support, either in form of guidance note or training from the regulator. The hypothesis tested also supports this evidence. This touches upon the capacity of the regulator to assist preparers, a common problem of emerging market.

The rest of the study is organised as follows: the next section reviews prior literature on impairment practices discussing the theory underpinning the study. Section 3 outlines the research design while section 4 is on data analysis and presentation of findings. Finally, section 5 draws conclusion, highlights limitation(s) of the study and makes recommendations.

Theoretical context of the study– information asymmetry

Theoretically, information or "lemons" problem (Akerlof, 1970) arises because managers are known to have more information about corporations which they manage when compared to shareholders as investors and owners of capitals. Not only do managers have more information when compared to shareholders as investors, manager's incentives may differ from that of the investors. As such some accounting researchers have argued that the result of a combination of the "lemons" problem and the conflicting incentives between the managers and investors would be a breakdown in the functioning of

a country's capital market (see Healy & Palepu, 2001; Akerlof, 1970). This is due to the effect of incomplete information in the capital market. Disparity of information between both parties, shareholders expected return will vary according to the level of information at their disposal to assess the business. Lemons problem or information disparity will therefore usually result in the capital market undervaluing some investment while overvaluing others.

Goodwill impairment provides a typical example of a situation where disparity of information between managers and investors will arise, and hence information asymmetry that can impede the capital market. The private information hypothesis (Scatt, Doukakis, Bessieuxollier, & Walliser, 2016) suggests that when investors are not able to form opinion about future earnings and cash flows, goodwill impairment provides them with useful information. On the other hand, the earnings management hypothesis (Scatt, Doukakis, Bessieuxollier, & Walliser, 2016) suggests that managers do not have self-motivation to always provide reliable numbers to investors. Application of private information hypothesis predicts that managers' knowledge of true amount of goodwill impairment is more accurate than that publicly available to investors through financial reporting. In this situation, there is information asymmetry and therefore the information content of goodwill impairment conveys management's private information to investors (Scatt *et al.*, 2016). Although the earnings management hypothesis predicts that managers have incentives not to provide reliable numbers, meaning a decrease in the value of private information conveyed by goodwill impairment, it is still generally agreed that disciplining mechanisms of the market may force managers to disclose reliable numbers that then increases the value of private information. In summary, goodwill impairment in certain instances provides private information which helps investors to assess the future prospects of a company gauging from its earnings and in other instances may not be a valuable private information if managers employ it in earnings management, hence providing unreliable figure.

According to IAS 36, "an impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount". The process of determining impairment loss contains options and sometimes managerial involvement in valuation of assets since the objective of IAS 36 is to ensure that assets are carried at no more than their recoverable amount. Recoverable amount is defined as the higher of fair value less cost to sell or value in use which requires estimation sometimes especially where no level one fair value exists, which is the case with most emerging markets. Estimation is also required in determining value in use and may also involve managerial discretion. The IAS 36 requires immediate write-off of impairment loss, but again managerial discretion may mean non-compliance usually employed to engage in earnings management. Prior studies have shown that IAS 36 is a complex standard which suggests implementation challenges that may result in incorrect impairment loss figure and therefore wrong assets value and earnings figures to investors, leading to worsening information asymmetry. Information asymmetry theory therefore underpins this study.

Literature on accounting for impairment

The literature on accounting for impairment is wide and varied. One strand of this literature centres around the informativeness or information content of impairment. Example of one study that aims at this informativeness is test of market reaction to goodwill write off (see for example Knauer & Wohrmann, 2016). Closely related to this, is another strand that examines managerial incentives that

constrain or promote managerial decision to impair goodwill (see for example Carlin & Finch, 2009; Avallone & Quagli, 2015). Another strand examines institutional setting that ensures quality and informational content of impairment through corporate governance mechanisms or regulation. I argue that all the above strands will benefit from accurately determined impairment loss figure. This may inform another strand of studies on impairment which concentrated on accounting practices around determining the true impairment figure. This last strand is concerned with accounting practices around impairment accounting to determine correct impairment figure. This study fits within this strand which is the focus of the literature review.

In Europe there is evidence of variation in accounting practices relating to impairment accounting by large corporations. For example, the European Securities and Markets Authority (ESMA)'s review of the 2011 IFRS financial statements among large European companies as regards impairment testing reveal many shortcomings such as unreasonable managerial assumptions, variations in sensitivity analysis and discount rate disclosures, recoverable amount determination and unrealistic growth rate. These are variables used in determining impairment loss figure. If the above obtains in environment, where accountants and auditors are deemed to possess technical competence to deal with IFRS, it may be more challenging for what obtains in an emerging market like Nigeria where there is lack of capacity on the part of accountants to deal with IFRS issue (see Osinubi, 2020)

The study by Petersen and Plenborg (2010) centres on how firms in Denmark implement impairment tests as required by IAS 36. Specifically, they examine how firms define a Cash generating unit (CGU), measure the recoverable amount of a CGU, to explore factors explaining why some firms do not comply with IAS 36. They collected data based on 58 completed returned questionnaire distributed to firms listed on Copenhagen Stock Exchange that recognised goodwill on the balance sheet. Analysis of the questionnaire provide evidence of inconsistencies in IAS 36 implementation especially around how the firms define a CGU and estimate the recoverable amount. Inconsistencies in estimation of recoverable amount borders on discount rate, risk adjustment and cash flow estimation and there is evidence that some firms failed to define their CGU. Petersen and Plenborg (2010) were unable to conclude whether their findings are attributable to adoption of approaches suitable to individual organisational and their economic structure or uncertainty about applying the standard. This underscores the complexity of the standard.

There are other studies that concentrate on attributes of impairment testing under IAS 36. For example, Carlin and Finch (2009) focus on selection bias in discount rates employed by Australian firms in goodwill impairment testing. They first generated independent discount rate as predicted by Capital Asset Pricing Model (CAPM) which they then compared with the discount rates disclosed by Australian firms in their financial statements. The study provides evidence of variances between these two discount rates. They see these variances as bias in selection of discount rates leading them to draw conclusion of evidence consistent with opportunistic accounting behaviour relating to impairment on the part of managers preparing financial statement in Australia. They further conclude that the validity of goodwill valuations and the quality of reported earnings may be challenged by the bias in selection of discount rate for impairment.

Avallone and Quagli (2015) examine the variables employed by managers of a sample of highly capitalized European listed companies to avoid or reduce amount of impaired goodwill written off.

These are mainly managers of companies from Germany, Italy, and UK with book goodwill over the period 2007–2011. The study first estimated from publicly available external sources what the long-term growth rate to be used in impairment test should be and then compared that with difference between that and the actual rate used by the managers. This test enables it to provide evidence which shows the existence of growth rate manipulation. This growth rate manipulation was found to be a significant explanatory variable in European managers avoiding or reducing the amount of impairment write-off. This suggests that given a choice to write off goodwill impairment or not to write off, these managers will choose not to write off impairment in order to boost earnings. This shows the significance of managerial discretion in impairment accounting.

Mazzi, et. al. (2016) survey the CFOs of listed companies in Italy on the complexities of the implementation of IAS 36. The study documents the perception of complexities and subjective interpretation for estimating recoverable amount and fair value required for impairment testing. The most difficult aspect according to the CFOs are fair value estimation; calculation of discount and growth rates and projection basis to be adopted. This difficulty was exacerbated during the financial crisis. Given that Italy is a developed country, the study, therefore, underscores the difficulty and challenge that financial reporting accountants may face in emerging markets when it comes to impairment accounting practices. This is because it may be even more challenging to determine fair value in most emerging markets compared to Italian market. Evidence provided by Mazzi, et. al. (2016), therefore, highlights country specific issues in impairment accounting.

Andre, Filip and Paugam (2016) compare goodwill impairments recognition pattern of some firms in US with that which obtains for European firms from 2006 to 2015. The study provides evidence which shows that European firms are more likely to delay write off impairment loss and recognise lesser amount than their US counterparts. Impairment accounting under IAS 36 requires immediate write-off of impairment loss which has been associated with timely loss recognition, but managerial discretion may dictate a different practice. The above evidence shows that information asymmetry created by impairment accounting practices may vary from country to country underscoring the need to examine this.

Quaranta, Gabriele and Zigiotti (2019) examine how Italian banks perform impairment test and whether they comply with timely recognition of impairment loss for intangible assets arising from business combination. The study sought to assess whether there is association between prompt impairment loss write off and bank's profitability. They provide evidence that bank's profitability is associated with timely impairment loss recognition. Again, this borders on managerial discretion which shows that choice of goodwill accounting practice by managers may mean unrecognition of goodwill impairment.

Our review so far shows that prior studies that have examined impairment accounting practices draw evidence from developed countries. Within the Nigerian context, Olugbenga *et al.*, (2012) investigated impairment disclosure compliance using a sample of eleven banks. Their study showed an increase in the number of banks disclosing impairment losses. Chukwu and Obah (2019) investigated whether impairment impact share prices of listed insurance companies in Nigeria. Their study provide evidence which shows that share prices are not significantly impacted by impairment of insurance receivables and other financial assets in Nigeria. These two studies do not directly address impairment accounting

practice and regulatory support. The review also shows that only few studies directly engage with those charged with actual impairment accounting practices such as financial reporting accountants. This study differs in that it engages directly with accountants, financial controllers and Chief Financial Officers (CFOs) in Nigeria who are directly involved with impairment accounting in their companies, to address impairment accounting practice and regulatory support. It thereby aims at a unique and 'first-hand' information concerning impairment accounting practice within an emerging market context.

Research design

Many prior studies on impairment accounting have employed quantitative research design in which variables such as impairment losses and disclosure compliance are quantified (see for example Knauer & Wohrmann, 2015; Avallone, & Quagli, 2015). The problem with this approach is that it fails to provide field level evidence which can be revealed from the perspective of actual practitioners drawing from qualitative research design. Few studies have employed qualitative research design that engages directly with those involved in impairment accounting and most of these studies collect data using questionnaire (see for example Petersen & Plenborg, 2010; Mazzi *et al.*, 2016). These later studies provide deeper insight into actual impairment accounting practices but have however been few. This study engages directly with practitioners involved with actual impairment accounting practices within the Nigerian context. It therefore adopts exploratory qualitative research design in which data was collected from the survey of financial accountants and controllers and CFOs who are responsible for impairment accounting practices in their companies. Beatie and Smith (2012) highlight peculiar advantage of employing survey questionnaire to collect data in research design as it enables the researcher to pose relevant questions relating to the topic of study.

In order to develop the questionnaire, three semi structured interviews were conducted with the following: (1) An IFRS Partner with Big 4 accountancy firm, (2) A Senior Manager within IFRS unit of a Big 4 accountancy firm (3), a CFO of a listed company, (4) a Financial Controller of unlisted company that has adopted IFRS and (5) a Financial Accountant of a listed company in Nigeria. The semi-structured interview facilitated gaining an insight into impairment accounting practices of companies in Nigeria which this study addressed. To ensure surface validity of the research instrument the questionnaire was discussed with three chartered accountants who are non-IFRS experts and for content validity, with the five interviewees who are IFRS experts. Thereafter, the questionnaire was updated to incorporate observations arising from these discussions, especially in the sub-questions. The questions were posed to unearth impairment accounting practice (see Appendix 1).

Snowball sampling was employed to select respondents for the study. Snowball sampling targets participants with relevant knowledge in the area of study (Maitlis, 2005). To increase response rate, the questionnaire was designed using google survey in an online platform which allows completed questionnaire responses to be received automatically. Google survey allows questionnaire to be sent to respondents through email or WhatsApp, allowing them to complete the questions asked using android mobile phone, tablets or laptops. This makes it easier when compared to physical survey. As the respondents complete the questionnaire, summary statistic results are automatically generated. Two research assistants engaged made phone calls to continuously urge and remind respondents to complete the questionnaire at intervals of two weeks given their busy schedules.

A total of 253 copies of the questionnaire were administered, out of which 63 responses were received, with three outliers excluded, making 60 valid responses. This represents 24% response rate and compares favourably with prior studies that have employed similar data collection method to examine an accounting topic. For example, in the study by Mazziet *al.* (2016), only 48 completed copies of questionnaire were received representing a response rate of about 18%. The study by Graham and Harvey (2005) returned an 8.8% response rate while 11.8% was the rate in Mukherjee, Kiyamaz, and Baker (2004). Yet other studies have ranged between 10% and 12% (see for example Beattie & Smith, 2012; Trotter, 2013). The response rate of the study is therefore above average for the type of respondents surveyed.

The questionnaire was designed in 5 Likert scale, using a score of 1 which means totally disagree/low difficulty/not useful at all, while a score of 5 means totally agree/very difficult/very useful. The first set of questions addressed impairment accounting practices and the next set addressed perception around complexity of impairment accounting. Finally, the last set of questions tried to identify support provided by financial reporting regulatory authority. Three null hypotheses were developed following evidence from the literature. The hypotheses centre on willingness to write off impairment loss immediately, complexity perception of impairment accounting practice and support from financial regulatory authority. From the literature review there is evidence that large European firms are unlikely to engage in timely impairment loss recognition but may delay write off (Andre, Filip & Paugam, 2016; Avallone & Quagli, 2015; Quaranta, Gabriele & Zigiotti, 2019). This suggests that there may or may not be a willingness on the part of financial reporting accountants for immediate impairment loss write-off given a choice of deferment. Consequently, this study hypothesises as follows:

Hypothesis One:

H0: There is no significant willingness on the part of financial reporting accountants for immediate impairment loss recognition given a choice of deferment.

The literature also provides evidence of a perception of complexity and subjective interpretation in impairment accounting by CFOs of European companies (see Mazziet *al.*, 2016). This study therefore hypothesises as follows:

Hypothesis Two:

H0: There is no significant relationship between impairment accounting complexity and impairment accounting practice in Nigeria.

Finally, Mazziet *al.*, (2016) provide evidence which shows that financial reporting regulatory authorities in Italy provide guidance on impairment accounting. This is important in emerging markets where expertise in IFRS is lacking (Hopper *et al.*, 2017). The study hypothesises as follows:

Hypothesis Three:

H0: There is no significant relationship between support from financial reporting regulatory authority and companies' impairment accounting practices in Nigeria.

A simple regression model was employed to measure the effect of the independent variables (willingness, perception of impairment accounting complexity and FRCN support) on the dependent

variables (impairment write-off and impairment accounting practice). The analysis of variance is used to test the significance of the result of the simple regression model. The regression models are as follows:

$$IMPW = \beta_0 + \beta_1 Will + e \dots \dots \dots i$$

$$IMPAP = \beta_0 + \beta_2 POC + e \dots \dots \dots ii$$

$$IMPAP = \beta_0 + \beta_3 FRCN + e \dots \dots \dots iii$$

Where

IMPW = Impairment write-off (Dependent Variable)

IMPAP = Impairment Accounting Practice (Dependent Variable)

β_0 = Intercept where independent variable is zero

$\beta_1 Will$ = Willingness (Independent Variable)

$\beta_2 POC$ = Perception of complexity (Independent Variable)

$\beta_3 FRC$ = FRC Support (Independent Variable)

e = error term

The survey questionnaire responses were first analysed using simple descriptive statistics given the exploratory nature of the study and research objectives. The results of the simple descriptive statistical analysis, the regression and test of hypotheses, using ANOVA are presented in the next section.

Findings

a. Profile of the Respondents

The descriptive statistics of respondents are first presented.

Overall, descriptive statistics (see Table 1) shows that more of the respondents (55%) are CFOs 23%, financial controllers and 22% accountants. About 60% has over 10 years of experience in financial reporting. The respondents work across many industries in Nigeria comprising both listed and unlisted. Their responses are therefore indicative of impairment accounting practices and perception within the Nigerian emerging market.

Table 1: Descriptive statics of respondents

Job role/position in the Company	No	%
CFO	33	55
Financial Controller	14	23
Financial accountant	13	22
Total	60	100

No of years' experience in accounting Job	No	%
1 year to 10 years	24	40
11 years to 20 years	19	32
21 years to 30 years	10	17
Above 30 years	7	12
Total	60	100

Industry group of Company	No	%
Agriculture	3	5
Construction/Real estate	1	2
Consumer goods	8	13
Financial services	14	23
Healthcare	3	5
Industrial goods	3	5
ICT	4	7
Oil & gas	6	10
Services	15	25
Utilities	3	5
Total	60	100

Listing status of company	No	%
Listed	21	35
Not listed	39	65
Total	60	100

Source: Author's Field survey, 2021

b. Impairment accounting practices

i. Identification of those who carry out impairment testing in the organisations.

The first interest under impairment accounting practices tries to identify who carries out the company's impairment testing. Given that determining impairment is considered a complex accounting process (Mazziet *al.*2016), it is important for the respondents to reveal who carries out impairment testing in their organisations as this will enable the study gauge internal capacity and hence extent of external reliance example external consultants to carry out impairment testing. According to Table 2, it can be seen that while 60% of impairment testing by the companies are carried out by internal officers, 40% outsource impairment testing to external consultants and auditors. This compares with 20% reliance on external parties by the Danish firms in the study by Petersen and Plenborg (2010). Prior studies show that one of the challenges of IFRS implementation in emerging markets is inadequate qualified accountants (Perera, 2012) and hence lack of internal capacity. This underscores the need for financial reporting regulatory support for accountants in Nigerian companies.

Table 2: Respondents' identification of those that carry out impairment test in their organisations in Nigeria

Respondents' choice	No	%
Financial accountant/controllers	29	48
Committee of management	7	12
External consultant	12	20
External auditor	12	20
Total	60	100

Source: Author's Field survey, 2021

ii. Determination of recoverable amount.

The next question addresses impairment accounting practice around the estimation or determination of recoverable amount.

According to IAS 36, an asset is impaired where its carrying amount is less than the recoverable amount. Recoverable amount is the higher of fair value less cost to sell or value in use going by IAS 36. Knowing what to use as recoverable amount is an important aspect of impairment accounting practice hence this question. The responses in Table 3 shows that more of the respondents (58%) reported determination of recoverable amount using fair value less cost to sell. This contrasts with evidence in Petersen and Plenborg (2010) where majority of Danish firms (66%) indicated they determine the recoverable amount for a CGU using "value in use". But it could be that in the case of the Nigerian firms, fair value less cost to sell turns out to be higher than value-in-use. However, the question to be asked is, how easy it is for these firms to determine fair value in the Nigerian environment. This question is important given that prior studies show lack of adequate justification in the assumptions made in estimating assets' recoverable amounts (Glaum *et al.*, 2013; Mazziet *et al.*, 2016; Huikku *et al.* 2017). Also there is a high proportion (35%) of Nigerian firms using a combination of fair value less cost to sell and value in use compared to 25% of the Danish firms in the study by Petersen and Plenborg (2010).

Table 3: Respondents' view on how their organisation determine recoverable Amount

Respondents' choice	No	%
Fair value less cost to sell	35	58
Value in use	4	7
Both methods	21	35
Don't know	0	0
Total	60	100

Source: Author's Field survey, 2021

iii. Determination of value in use for impairment testing.

Recall that some of the respondent indicated they determine recoverable amount as value in use. The explanation is that they all determine value in use which is usually lower than fair value less cost to sell, hence more use fair value less cost to sell. But the question is what the impairment accounting practice around the determination of value in use is? Table 4 shows that as much as 60% of the respondents said they use discounted cash flow model when determining value in use. This compares to 82% of Danish companies in the study by Petersen and Plenborg (2010). Whereas 33% of the respondents claimed they use economic value added, only 3% claimed they use this in the study by Petersen and Plenborg. It is not clear why a high proportion of the respondents indicated EVA as a method employed to estimate value in use given the definition and calculation of EVA. Could it be that the respondents are not clear on what EVA means?

Table 4: Respondents choice of how their organisation s determine value in use

Respondents' choice	No	%
Discounted cash flow	36	60
Economic value added	20	33
Others	4	7
Don't know	0	0
Total	60	100

Source: Author's Field Survey, 2021

iv. Discount rate used in determining value in Use for impairment testing.

The concept of discounted cash flow suggested that cash flow is discounted for time value of money. Hence, the views of the respondents on what discount rate they use for cash flow discounting in order to determine value in use were sought. Table 5 shows that 30% of the respondents indicated they use pre-tax discount rate while 18% use after tax discount rate in discounting cash flow when calculating value in use. Majority (42%) use weighted average cost of capital. The study by Huikku *et al.* (2017) shows that corporations in Finland applied the above three discount rates in their cash flow estimation of value in use when testing impairment of a cash-generating Unit (CGU). This contrasts with evidence in Petersen and Plenborg (2010) where half of their sampled companies discounted cash flows with pre-tax discount factor and half with after-tax discount factor.

Table 5: Respondents choice of the discount rate used to determine value in use in their Organisations

Respondents' choice	No	%
Pre-tax discount rate	18	30
Post-tax discount rate	11	18
Weighted average cost of capital	25	42
Cost of equity	6	10
Total	60	100

Source: Author's Field Survey 2021

c. Impairment accounting choices

Ultimately, it is managerial discretion around impairment loss recognition that matters (see Avallone&Quagli, 2015; Andre *et al.*, 2016). As such the views of the respondents were sought on impairment loss recognition choices. Here mean, standard deviation and p-values are calculated to ascertain degree of agreement or disagreement with choice indicated. Table 6 presents summary of the respondents' choice. There is a weak agreement at mean of 3.57, that if given a choice they will prefer to write off impairment loss immediately rather than deferring same. This contrasts with prior studies which provide evidence suggesting that some managers in actual practice will deliberately choose not to write off goodwill in order to boost earnings (see Avallone&Quagli, 2015; Andre *et al.*, 2016; Quaranta *et al.*, 2019). For example, Avallone and Quagli (2015) provide evidence which show that some European managers avoid or reduce the amount of the impairment write-off. This is an indication that these European managers when given a choice will prefer not to write off impairment loss immediately unlike the practice among the respondents in this study. Similarly, they disagree with

a choice of not writing off impairment loss because of a perception that assets are not impaired, an issue that came up during the pilot Managerial discretion around immediate goodwill write-off lies at the hearth of private information and information asymmetry (Schattat *et al.*, 2016; Healy & Palepu, 2001; Akerlof, 1970).

Table 6: Perception on impairment loss recognition choice	N	Mean	SD	P-value
Given a choice we will prefer to write off impairment loss immediately	60	3.57	1.25	0.00
Given a choice, we will prefer to spread impairment loss over a given number of years	60	3.02	1.49	0.00
Given a choice we will prefer not to write off impairment loss at all as we do not feel our assets are impaired	60	1.98	1.42	0.00

Source: Author's Field Survey, 2021

i. Test of Hypothesis One

To further support the analysis around perception on impairment loss recognition choice, the first hypothesis of the study was tested.

Hypothesis One:

H0: There is no significant willingness on the part of financial reporting practitioners for immediate impairment loss recognition given a choice of deferment.

Table 7 shows the result of the first regression model on the relationship between financial reporting accountants' willingness and immediate impairment loss write-off by Nigerian companies given a choice of deferment. The Table shows that there is a strong positive relationship between financial reporting accountants' willingness and immediate impairment loss write-off by their companies. This is shown by the value of R at 91.3%. It further reveals that the financial reporting accountants' willingness has a strong positive effect on impairment write-off by their companies. This is represented by the adjusted R square of 82.7%.

Table 7. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.913 ^a	.833	.827	.521

a. Predictors: (Constant), Willingness

Source: Author's Field Survey 2021

Table 8 shows the result of the ANOVA used to test the significance of the result of regression model 1. Here, the computed p-value for questions around choice of immediate write off of impairment loss or deferment is 0.00. This is lower than the p-value of 0.05 set for this study. Therefore, the null hypothesis is rejected and the alternate hypothesis which states that 'there is significant willingness on the part of financial reporting accountants in Nigerian companies for immediate impairment loss write-off, given a choice of deferment is accepted.

Table 8. ANOVA ^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	77.264	2	38.632	142.344	.000 ^b
	Residual	15.470	57	.271		
	Total	92.733	59			

a. Dependent Variable: Impairment loss write-off

b. Predictors: (Constant), Willingness

Source: Author's Field survey 2021

d. Perception on complexity of impairment accounting practices

Overall perception of complexity shows that majority is undecided as to whether impairment accounting practice is complex or not as shown in Table 9. Specific questions around identifying an asset that is impaired, a cash generating unit, entity specific assumptions for determining value in use and number of years' projection for cash flows and discount rate, to ascertain whether each aspect of impairment accounting is easy as in Table 9, are all tending towards disagree or undecided. Undecided is about uncertainty and disagree suggests complexity with both suggesting a possibility that a wrong impairment accounting practice that may ensue, following each aspect of the process of determining impairment loss. This evidence is similar to the findings by Petersen and Plenborg (2010) which shows that Danish companies find it difficult to determine an asset that is impaired but contrasts with evidence in Mazziet *al.* (2016) which suggests that Italian CFOs found it easy to identify an asset that is impaired. Although evidence in Mazziet *al.* (2016) shows that Italian companies found the determination of fair value less cost to sell as complex, uncertainty as regards complexity is the dominant perception here as most respondents are undecided. But "undecided may be an indication of not knowing what to do. Where accountants do not have good knowledge of what accounting standard requires, perception about complexity will be undecided. Overall evidence supports that in Mazziet *al.* (2016) which argues that determining variables used in impairment testing is considered difficult by Italian firms. This will widen the information asymmetry between shareholders and managers (Schatt *et al.*, 2016; Healy & Palepu, 2001; Akerlof, 1970). The uncertainty around impairment accounting therefore calls for support from the financial reporting regulatory authority in Nigeria leading to the next group of questions.

Table 9: Respondents' perceptions on impairment accounting complexity

Table 9 shows the analysis of respondents' perception on the complexity of impairment accounting using mean response.

	N	Mean	SD	P-value
Overall impairment accounting under 1AS 36 is complex.	60	2.80	1.30	0.00
Identifying an asset that is impaired is easy	60	2.47	1.36	0.00
Identifying a cash generating unit is easy	60	2.85	1.29	0.00
Determining fair value less cost to sell is easy	60	3.00	1.16	0.00
Entity specific assumptions for determining value in use is easy	60	2.87	1.20	0.00
No of years projection for cash flows is easy to determine	60	2.72	1.14	0.00
Determining a discount rate is easy	60	3.15	1.18	0.00
Subjective cash flow estimation constrains reliable value in use	60	3.67	1.20	0.00

Source: Field Survey 2021

i. Test of Hypothesis Two:

To further support the descriptive statistical analysis around complexity perception of impairment accounting, the second hypothesis of the study was tested.

H0: There is no significant relationship between impairment accounting complexity and impairment accounting practice in Nigeria.

Table 10 shows the result of the second regression model on the relationship between impairment accounting complexity and impairment accounting practices. It shows that there is a positive relationship between impairment accounting complexity and impairment accounting practice under IAS 36. This is represented by R of 98.2%. It further shows that impairment accounting complexity has a high effect on impairment accounting practices under IAS 36. This is represented by the adjusted R square of 96%.

Table 10. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.982 ^a	.963	.960	.260

a. Predictors: (Constant), Perception of complexity

Source: Field survey 2021

Table 11 shows the result of the ANOVA used to test the significance of the result of the second regression model. Here, the computed p-value is 0.00 which is lower than the p-value of 0.05 set for this study. Therefore, the null hypothesis is rejected and the alternate hypothesis is accepted which states that 'there is a significant relationship between impairment accounting complexity and impairment accounting practice in Nigeria. This further supports earlier evidence obtained through our descriptive analysis which shows uncertainty about complexity in impairment accounting. Uncertainty connotes doubt which arises as a result of complexity which creates doubt in the mind of practitioners.

Table 11. ANOVA ^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	96.340	6	16.057	261.006	.000 ^b
	Residual	3.260	53	.062		
	Total	99.600	59			

a. Dependent Variable: Impairment accounting practice

b. Predictors: (Constant), Perception of complexity

Source: Field survey 2021

e. Support from FRCN on impairment accounting.

Table 12 presents simple descriptive statistical analysis of respondents' views on support from financial reporting regulatory authority. Majority of the respondents expect financial reporting regulatory authority in Nigeria to provide guidance on impairment accounting. This underscores the challenge of IFRS implementation in emerging markets and shows that financial reporting regulation should embody work around guidance and providing direction as the regulated may not always be

clear about the requirements of the standard. The next question sought to find out the support from financial reporting regulatory authority to guide preparers on impairment accounting. Again, majority are undecided on there being at least one guidance from FRCN on impairment accounting. Thus, it can be inferred that such guidance does not exist within the Nigerian context. This contrasts with evidence in Mazziet *al.* (2016) which shows that the financial reporting regulatory authority in Italy issued two guidelines meant to assist preparers in impairment accounting (OIC, 2009) and OIV (2012). Although support could be in form of issuing guidance, but it could also be in form of training. So respondents were asked about awareness of training conducted by the financial reporting regulatory authority, again majority were undecided on this. Overall evidence does not suggest the existence of at least one training conducted by FRCN to guide preparers with impairment accounting. Preparers are therefore left grappling with impairment accounting and its attendant complexity without support from financial reporting regulatory authority. Hypothesis 3 of the study was tested to further support the evidence here.

Table 12: Respondents views on support from financial reporting regulatory authority	N	Mean	SD	P-Value
Accountants expect FRCN to issue a guidance on impairment accounting	60	4.22	0.99	0
Accountants will find impairment accounting easier with guidance from FRC	60	3.12	1.25	0
I am aware of at least one guidance issued by FRCN on impairment accounting.	60	2.87	1.37	0
FRCN usually conducts training to guide preparers on impairment accounting.	60	2.75	1.46	0

Source: Field Survey, 2021

i. Test of Hypothesis Three:

To further support the simple statistical analysis around respondents' views on support from financial reporting regulatory authority and impairment accounting practices, the third hypothesis of the study was tested.

H0: There is no significant relationship between support from financial reporting regulatory authority and companies' impairment accounting practices in Nigeria.

Table 13 shows the result of the third regression model on the relationship between support from financial reporting regulatory authority and companies' impairment accounting practices in Nigeria. It shows that there is a perception that the support from financial reporting regulatory authority has a strong positive relationship with companies' impairment accounting practices in Nigeria. This is represented by R at 85.8%. It further shows that support from financial reporting regulatory authority has a significant positive effect on the impairment accounting practices of companies in Nigeria. This is represented by the adjusted R square of 72.2%

Table 13. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858 ^a	.737	.722	.523

a. Predictors: (Constant), Support from FRCN

Table 11 shows the result of the ANOVA used to test the significance of the result of the third regression model. Here the computed p-value is 0.00 which is lower than the p-value of 0.05 set for this study. Therefore, the null hypothesis is rejected and the alternate hypothesis is accepted which states that is

significant relationship between support from financial reporting regulatory authority and companies' impairment accounting practices in Nigeria.

Unfortunately, analysis from the descriptive statistics shows that this expectation is not met as FRC does not provide any form of guidance nor training to assist and guide preparers

Table 14. ANOVA ^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	42.857	3	14.286	52.198	.000 ^b
	Residual	15.326	56	.274		
	Total	58.183	59			

a. Dependent Variable: Impairment accounting practices

b. Predictors: (Constant), Support from FRCN

Source: Field Survey, 2021

CONCLUSION AND RECOMMENDATIONS

The study sets out to answer three questions. First, how do financial reporting officers engage in impairment accounting practices in Nigeria after IFRS adoption? What is their perception on the complexity of impairment accounting? Finally, what support from financial reporting regulators is available to preparers to assist them with impairment testing given its complexity? To answer the research question, the study collected data through survey questionnaire of accountants, financial controllers and CFOs who are financial reporting officers in their organisations and therefore engage in impairment testing. Snowball sampling method was adopted in identifying respondents. Out of about 253 copies of questionnaire distributed, only 60 usable responses, representing 24% were received. The responses were analysed using simple descriptive statistics and ANOVA used to test the hypotheses, since the objective was to gain insight into accounting practice using the views of practitioners.

On the first research question, the analysis provides evidence of internal capacity as opposed to outsourcing of impairment accounting with recoverable amount as fair value less cost to sell. It is not clear why fair value less cost to sell is the dominant method of determining recoverable amount given that fair value is an issue in most emerging markets. Respondents are favourably disposed to writing off impairment loss as incurred. This is also surprising given evidence in prior literature of earnings management using goodwill (non)recognition. Similarly, on the second research question, their response on the complexity of impairment accounting is "undecided", which suggests uncertainty of how to deal with impairment loss determination. This finding is supported by the hypothesis tested. This is an indication of not knowing what to do confirming complexity. Ultimately, willingness to immediately recognise impairment loss without a desire to defer it is meaningless if accurate figure cannot be determined. Theoretically this compounds information asymmetry and underscores the need for capacity to implement IFRS in emerging economies. It questions evidence of internal capacity to engage in impairment accounting provided in the study as those charged with impairment accounting after all are not sure of what to do. Finally, on the last research question, while there is

expectation for the financial reporting regulator to provide support to guide preparers on impairment accounting, there is no such support either in form of guidance or training from the regulator. The hypothesis tested also supports the evidence. This touches upon the capacity of the regulator to assist preparers, a common problem of emerging market.

The study contributes to the stream of literature examining challenges of IFRS adoption and implementation and hence suitability in emerging market. Based on the evidence in the study, it is recommended that the accounting profession through its continuous professional development (CPD) continue to build the capacity of accountants in Nigeria, to bring clarity rather than uncertainty in application of all individual IFRSs. The financial reporting regulatory authority should issue guidance on the application of IFRSs perceived by practitioners as complex and arrange training from time to time to deepen understanding of IFRSs. It calls on relevant government agency to provide the resources needed by the financial reporting regulator to carry out its work, if this is an issue.

The study is not without its limitations. First evidence is based on views of some financial reporting practitioners making it difficult for generalisation. However, generalisation is not the objective as its strength lies in providing a deep insight into practical challenges of impairment accounting from emerging market perspective. Future studies could address financial reporting practitioners' perception about information content of impairment accounting to ascertain whether the market cares for such information in the Nigerian environment. Studies could also be carried out to test compliance with measurement, recognition and disclosure requirement of impairment accounting and whether compliance is associated with reduction in information asymmetry. Finally, the role of auditors in constraining managerial discretion in impairment accounting in Nigeria will further shed light in this stream of literature.

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Appendix 1

Research Questionnaire

- 1 What is your job role/position in the company
Job role/position
CFO
Financial Controller
Financial accountant
- 2 What is the number of years' experience in accounting job
No of years' experience
1 year to 10 years
11 years to 20 years
21 years to 30 years
Above 30 years
- 3 What is the industry of your company
Industry
Agriculture
Construction/Real estate
Consumer goods
Financial services
Healthcare
Industrial goods
ICT
Oil & gas
Services
Utilities
- 4 What is the listing status of your company
Listing status
Listed
Not listed
- 5 Who carries out impairment test in your organisation
 - a Financial accountant/controllers
 - b Committee of management
 - c External consultant
 - d External auditor

6	How does your organisation determine recoverable amount					
a	Fair value less cost to sell					
b	Value in use					
c	Both methods					
d	Don't know					
7	How does your organisation determine value in use					
a	Discounted cash flow					
b	Economic value added					
c	Others					
d	Don't know					
	What discount rate is used to determine value in use in your					
8	organisation					
a	Pre -tax discount rate					
b	Post -tax discount rate					
c	Weighted average cost of capital					
d	Cost of equity					
9	Immediate recognition of impairment loss given a choice of deferment					
a	Given a choice we will prefer to write off impairment loss immediately	SA	A	U	D	SD
b	Given a choice , we will prefer to spread impairment loss over a given number of years	SA	A	U	D	SD
c	Given a choice we will prefer not to write off impairment loss at all as we do not feel our assets are impaired	SA	A	U	D	SD
10	Impairment accounting complexity					
a	Overall impairment accounting under 1AS 36 is complex.	SA	A	U	D	SD
b	Identifying an asset that is impaired is easy	SA	A	U	D	SD
c	Identifying a cash generating unit is easy	SA	A	U	D	SD
d	Determining fair value less cost to sell is easy	SA	A	U	D	SD
e	Entity specific assumptions for determining value in use is easy	SA	A	U	D	SD
f	No of years projection for cash flows is easy to determine	SA	A	U	D	SD
g	Determining a discount rate is easy	SA	A	U	D	SD
h	Subjective cash flow estimation constrains reliable value in use	SA	A	U	D	SD
11	Support from financial reporting regulatory authority (FRCN)					
a	Accountants expect FRC to issue a guidance on impairment accounting Accountants will find impairment accounting easier with guidance from	SA	A	U	D	SD
b	FRCN I am aware of at least one guidance issued by FRCN on impairment	SA	A	U	D	SD
c	accounting. FRCN usually conducts training to guide preparers on impairment	SA	A	U	D	SD
d	accounting.	SA	A	U	D	SD

SA = Strongly agree, A = Agree, U = Undecided; D = Disagree & SD = Strongly disagree