

CICA handbook accounting and auditing highlight summary no. 80 March 1994

HIGHLIGHT SUMMARY

(Note: New Handbook material or changes in existing material are identified in each HANDBOOK REVISIONS RELEASE.)

Impaired loans, Section 3025

This new Section establishes accounting standards for the recognition, measurement, presentation and disclosure of impaired loans, restructured loans and foreclosed assets. Main features of the new Section include:

- When a lender no longer has reasonable assurance that all remaining amounts due from a loan or portfolio of loans will be collected on a timely basis, loan impairment is recognized through a reduction in carrying amount and a charge to income.
- An impaired loan is measured at the present value of its estimated future cash flows, discounted at the effective rate of interest inherent in the loan. When cash flows cannot be estimated with reasonable reliability, measurement may be based upon the fair value of underlying security or an observable market price for the loan.
- Changes in the carrying amount of impaired loans from period to period are charged or credited to income.
- When a loan is restructured, the recorded investment in the loan should be reduced as of the date of restructuring to the amount of the net cash flows receivable under the modified terms, discounted at the effective interest rate inherent in the loan at the time the loan was recognized as being impaired.
- Foreclosed assets held for sale are carried at the lower of the loan's recorded investment and the estimated net proceeds of sale.
- Required disclosures provide information on the extent of impaired loans, the impact of impairment on income, and the basis of determining the amount of the allowance for loan impairment.
- The new Recommendations are effective for fiscal periods commencing on or after February 1, 1995, but the Board encourages earlier adoption. They are to be applied retroactively.

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