

DEFINITION

Cash-generating assets: are assets held with the primary objective of generating a commercial return (apply this standard).

Non-cash-generating assets: are assets other than cash-generating assets (impairment testing requirements are included in PBE IPSAS 21 - *Impairment of Non-Cash-Generating Assets*).

SCOPE

All assets, except: inventories, construction contract assets, financial assets, investment property at fair value, cash-generating plant and equipment and intangible assets on revaluation model, deferred tax assets, assets arising from employee benefits, biological assets at fair value less costs to sell, insurance contract assets, non-current assets held for sale and other assets in which impairment testing requirements are included in another PBE standard.

ASSETS TO BE REVIEWED

INDIVIDUAL ASSETS

CASH GENERATING UNITS (CGU)

The smallest identifiable group of assets that generates cash flows that are independent of the cash inflows from other assets or group of assets.

IMPAIRMENT = Carrying Amount > Recoverable Amount

Recoverable amount = Higher of fair value less costs to sell and value in use.

Fair value less costs to sell

Amount obtainable in an arm's length transaction less costs of disposal.

Fair value

- Binding sale agreement.
- Market price in an active market.

Costs to sell

Incremental costs attributable to the disposal of an asset.

Value in use

Represents the present value of the future net cash flows from the continuing use and ultimate disposal of the asset.

Cash flows

- From continuing use and disposal.
- Based on asset in its current form.
- Exclude financing activities.
- Pre tax.

Discount rate

- Pre tax.
- Either adjust future cash flows or adjust the discount rate for the elements that should be reflected in the calculation of value in use.

TIER 2 RDR REPORTERS

RDR Reporters are granted certain disclosure exemptions in PBE IPSAS 26.

WHEN TO TEST FOR IMPAIRMENT?

When there is an indicator of impairment. Indicators are assessed at least at each reporting date.

ANNUAL IMPAIRMENT TESTS

INTERNAL INDICATORS

- Evidence of obsolescence or physical damage.
- Discontinuance, disposal or restructuring plans.
- Declining asset performance.
- Dividend received from a controlled entity, jointly controlled entity or associate if certain conditions are met (see para 25 (g)).

EXTERNAL INDICATORS

- Significant decline in market value.
- Changes in technological, market, economic or legal environment.
- Changes in interest rates.
- Low market capitalisation.

Compulsory for:

- Intangible assets with an indefinite useful life.
- Intangible assets not yet available for use.
- CGU to which goodwill has been allocated.

RECOGNITION OF IMPAIRMENT

All impairment losses must be recognised in surplus or deficit.

ALLOCATION OF IMPAIRMENT

Individual asset - recognised directly against asset.

CGU - First impair any goodwill in the CGU and then any remaining impairment is allocated against other assets of CGU on a pro-rata basis.

WHEN TO REVERSE IMPAIRMENT?

Individual asset - recognise in surplus or deficit unless asset carried at revalued amount.

CGU - allocated to assets of CGU on a pro-rata basis.

Goodwill - Impairment of goodwill is never reversed.

INTERNAL INDICATORS

- Changes in way asset is used or expected to be used.
- Evidence from internal reporting indicates that economic performance of the asset will be better than expected.

EXTERNAL INDICATORS

- Significant increase in market value.
- Changes in technological, market, economic or legal environment.
- Changes in interest rates.
- Market interest rates have decreased.