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PBE IPSAS 21: IMPAIRMENT OF NON-CASH-GENERATING ASSETS

Version 1: 2014

Effective Periods Beginning 1 April 2015

DEFINITION

Cash-generating assets: are assets held with the primary objective of generating a commercial return (impairment testing requirements are included in PBE IPSAS 26 - *Impairment of Cash-Generating Assets*).

Non-cash-generating assets: are assets other than cash-generating assets (apply this standard).

SCOPE

All non-cash-generating assets, except: inventories, construction contract assets, financial assets, investment property on fair value model, non-cash-generating property, plant and equipment and intangible assets on revaluation model, 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

IMPAIRMENT = Carrying Amount > Recoverable Service Amount

Recoverable service 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.

Best evidence of fair value is:

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

Costs of disposal

Incremental costs attributable to the disposal of an asset.

Value in use

Represents the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using one of the following approaches:

Depreciated Replacement Cost Approach

- Replacement cost of an asset is the cost to replace the asset's gross service potential.
- Refer PBE IPSAS 21.45 - 47 for further information.

Restoration cost approach

- Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level.
- Refer PBE IPSAS 21.48 for further information.

Service units approach

- The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment to conform with the reduced number of service units expected from the asset in its impaired state. (Refer PBE IPSAS 21.49).

The choice of the most appropriate approach to measuring value in use depends on the availability of data and nature of impairment. Refer to PBE IPSAS 21.50 for more information.

TIER 2 RDR REPORTERS

RDR Reporters are granted certain disclosure exemptions under PBE IPSAS 21.

WHEN TO TEST FOR IMPAIRMENT?

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

INTERNAL INDICATORS

- Evidence of physical damage.
- The asset becoming idle, plans to discontinue or restructure and plans to dispose.
- Decision to halt construction of asset prior to completion.
- Declining asset performance.

EXTERNAL INDICATORS

- Significant decline in the demand or need for services provided by the asset.
- Changes in technological, legal or government policy environment in which the asset operates.

ANNUAL IMPAIRMENT TESTS

Compulsory for:

- Intangible assets with an indefinite useful life.
- Intangible assets not yet available for use.

RECOGNITION OF IMPAIRMENT

All impairment losses must be recognised in surplus or deficit.

If the estimated impairment loss is greater than the carrying amount of the asset, a liability is recognised only if that is required by another PBE Standard.

WHEN TO REVERSE IMPAIRMENT?

Individual asset - recognise in surplus or deficit.

INTERNAL INDICATORS

- Changes in way asset is used or expected to be used.
- A decision to resume construction of the asset that was previously halted before it was completed or in an unusable position.
- Evidence from internal reporting indicates that service performance of the asset will be better than expected.

EXTERNAL INDICATORS

- Resurgence of the demand or need for services provided by the asset.
- Changes in technological, legal or government policy environment in which the asset operates Changes in interest rates.