

IMPAIRMENT OF NON-CASH -GENERATING ASSETS

PM Dr Ruhaya Atan PJK. CA (M)

Accounting Research Institute, Faculty of
Accountancy, UiTM

Contents

- Introduction
- Identifying an Asset that may be Impaired
- Measuring Recoverable Service Amounts
- Summary and Conclusions

INTRODUCTION

IPSAS 26 – deals with impairment of cash generating assets

IPSAS 21 – deals with impairment of non-cash-generating

DEFINITIONS

- i. Cash-generating assets are assets held to ***generate a commercial return.***

- ii. Non-cash-generating assets are assets ***other than cash-generating assets.***

IDENTIFYING ASSETS THAT MAY BE IMPAIRED

**Impairment Loss = CA > RSA
(Recoverable service amount)**

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 service amount of the asset.

Impairment Loss

- Impairment reflects a decline in the utility of an asset to the entity that controls it.

e.g.

An entity may have a purpose-built military storage facility that it no longer uses. In addition, because of the specialized nature of the facility and its location, it is unlikely that it can be leased out or sold, and therefore the entity is unable to generate cash flows from leasing or disposing of the asset.

The asset is regarded as impaired, as it is no longer capable of providing the entity with service potential – it has little, or no, utility for the entity in contributing to the achievement of its objectives.

Source: IPSAS 21

Measuring Recoverable Service Amount

RSA = [FV- costs to sell] or value in use (whichever is higher).

An asset's FV less costs to sell = a price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset

Value in use of a non-cash-generating asset = the PV of the asset's remaining service potential.

Measuring VIU in Recoverable Service Amounts

- ✓ Depreciated Replacement Cost Approach = Reproduction or replacement cost (whichever is higher) less acc. depreciation.
- ✓ Restoration Cost Approach = (Replacement cost – Acc depreciation) less restoration cost .
- ✓ Service Units Approach = Replacement cost – acc depreciation.

APPROACH IN DETERMINING PV IN VALUE IN USE

	Nature of impairment	Value in use measurement
1	Impairments identified from significant long-term changes in the technological, legal or government policy environment.	Depreciated replacement cost approach or a service units approach.
2	Impairments identified from a significant long-term change in the extent or manner of use, including that identified from the cessation or near cessation of demand.	Depreciated replacement cost or a service units approach when appropriate.
3	Impairments identified from physical damage.	Restoration cost approach or a depreciated replacement cost approach.

EXAMPLE OF NON-CGA GENERATING CASH FLOW

An asset may generate cash flows although it is primarily held for service delivery purposes.

e.g.

A waste disposal plant is operated to ensure the safe disposal of medical waste generated by state-controlled hospitals, but the plant also treats a small amount of medical waste generated by other private hospitals on a commercial basis. The treatment of medical waste from the private hospitals is incidental to the activities of the plant, and the assets that generate cash flows cannot be distinguished from the non-cash-generating assets.

Recognition of IL

- An impairment loss shall be recognized immediately in surplus or deficit.
- After the recognition of an impairment loss, the depreciation (amortization) charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of IL

- An impairment loss recognized in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall, except as described in paragraph 68, be increased to its recoverable service amount. That increase is a reversal of an impairment loss.

EXAMPLES

Summary and Conclusion

- ❖ IPASAS 21 ≠ IPSAS 26: IPSAS 21 allows the determination of value in use in a number of ways.
- ❖ Transition provisions – apply prospectively.

Thank you

ruhaya@salam.uitm.edu.my

**IPSAS Accrual Accounting Workshop – Jabatan Akauntan Negara
28-29 August 2012**