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INTRODUCTION

- i. An entity acquired an asset with the intention to generate commercial returns, ie. economic returns > carrying value. Due to certain reasons, value of asset decline.
- ii. Decision – keep using it (*value in use*) or sell it (*net selling price*). Basis of decision – highest returns to the entity.
- iii. If Carrying value (costs – accumulated depreciation) is much higher than the Recoverable value, asset has to be impaired.

DEFINITIONS

- **A cash-generating unit** is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

EXAMPLE OF CASH GENERATING AND NON-CASH GENERATING ASSETS

A public hospital has ten wards, nine of which are used for fee-paying patients on a commercial basis, and the other is used for non-fee-paying patients. Patients from both wards jointly use other hospital facilities (for example, operating facilities). The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the entity should apply the provisions of this Standard or IPSAS 21. If, as in this example, the non-cash-generating component is an insignificant component of the arrangement as a whole, the entity applies this Standard, rather than IPSAS 21.

Source: IPSAS 26

EXAMPLE

An entity may have municipal parking garage that is currently being used at 25 percent of capacity. It is held for commercial purposes and management has estimated that it generates a commercial rate of return when usage is at 75 percent of capacity and above. The decline in usage has not been accompanied by a significant increase in parking charges. The asset is regarded as impaired because its carrying amount exceeds its recoverable amount.

Source: IPSAS 26

TEST OF IMPAIRMENT

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 amount of the asset.

Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its CA with its RA.

EXAMPLE

A bus company operates both cross-country touring buses and local mini-buses.

For its mini-bus operations, it provides services under a government contract that requires a minimum service on each of six separate routes. The company's mini-buses devoted to each route can be identified separately, together with the net cash flows from each route. Each route has two buses devoted to it. One of the routes operates at a significant cash deficit – an indicator that the value of the two buses on this route may be impaired.

Source: IFRS 136

Impairment Loss

- ***Recognition of Impairment Loss***
- ***Reversal of Impairment Loss***

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Impairment Loss

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

$$IL = CA > RA$$

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

$$RA = [FV - COST TO SELL] \text{ or } VALUE \text{ IN USE}$$

(which ever is higher)

Value in use of a cash-generating asset is the PV of estimated future cash flows expected to be derived from the continuing use of an asset, and from its disposal at the end of its useful life.

EXAMPLE

	Asset A	Asset B
	RM'000	RM'000
Fair value less costs to sell	950	1,400
Value in use	1,100	nil
Current carrying amount of asset	1,250	1,700

EXAMPLE

On 1 January 20x4, Enterprise A purchased a machine for RM500,000. Estimated useful life the machine is 5 years and a salvaged value of RM60,000.

On 31 December 20x6, its fair value less cost to sell was RM144,000 and its projected net cash flows were RM70,000 and RM50,000 in 20x7 and 20x8 respectively. The company's incremental borrowing rate was 10%.

In 20x7, the machine's recoverable amount increased. On 31 December 20x7, the fair value less costs to sell and its value in use was RM140,000 and RM160,000 respectively.

RECOGNITION OF IMPAIRMENT LOSS

- An impairment loss shall be recognized immediately in Income statement.
- 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 IMPAIRMENT LOSS

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 amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount. That increase is a reversal of an impairment loss.

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Summary and Conclusion

Impairment loss – charge to income statement.

Disclosure –

- to distinguish cash-generating assets from non-cash-generating assets.
- impairment losses recognized
- amount of reversals of IL recognized

Thank you

ruhaya@salam.uitm.edu.my

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